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memo w/att.	<p>From McIntyre to The President (15 pp.) re: Azores Base Agreement/enclosed in Hutcheson to Brzezinski 1/24/79</p> <p><i>14 pp. declassified per NAC RAC NLC-126-16-13-1-9</i></p> <p><i>NLC-126-16-13-2-8 , 7/9/03</i></p>	1/24/79	A

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THE WHITE HOUSE
WASHINGTON

January 24, 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: State of the Union Message

Attached is the proposed State of the Union Message, currently scheduled to be sent to Congress by you tomorrow. (A Friday release had originally been planned, to ensure weekend coverage, but that would now interfere with your press conference on that day.)

Because of your need to focus on the State of the Union speech, and because you decided last year that you did not need to read the Message, I have not been forwarding drafts of the Message to you.

As was true last year, I do not believe you need to read this Message. It is a comprehensive description of our legislative program for the year (as well as a partial description of accomplishments to date). In the domestic area, we have attempted to remove controversial state-ments and have avoided any commitments you have not already approved. The domestic section has been approved by OMB and CEA, and incorporates comment from the White House senior staff. The foreign policy section was prepared by Zbig and has been approved by the State Department.

The Message is obviously lengthy, though it is not much longer than last year's version. While not many people may read the whole document they will read the sections of particular interest to them. For that reason, we have tried to include a meaningful description of our agenda in every legislative area of Presidential interest.

If you approve, we will proceed on schedule and have a final draft to you tomorrow.

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TO THE CONGRESS OF THE UNITED STATES:

My State of the Union Address was devoted to what I believe are the highest priorities facing our Nation in 1979.

However, my Administration's time and effort this year will also be focused on a significant number of other important initiatives and goals. I am sending this State of the Union Message so that the Members of the 96th Congress are presented with a full picture of my basic legislative program in domestic and foreign affairs for the year.

Over the past two years, my Administration has developed a very cooperative relationship with the Congress. That relationship not only resulted in the extraordinarily productive record of the 95th Congress, but will provide the foundation for a renewed sense of trust and confidence by the American people in their government.

We have an enviable record to match. But with your help, the 96th Congress can meet this challenge. My Administration and I are eager to help in the effort.

Our basic goals will be to work with you to build solid foundations for the next century on the quicksand we inherited -- a solid economic foundation of stable prices and continued growth -- a solid foundation for a more efficient, less intrusive Federal government -- a solid foundation for world peace and American security.

FOUNDATION FOR PROGRESS

When I took office two years ago, the country faced serious domestic problems:

- o the economy had not recovered from a recession;
- o unemployment was intolerably high at 7.8%, with 7-3/4 million Americans out of work;

- o the Nation had no sound energy policy and oil imports were rising rapidly;
- o the Federal government was operating inefficiently in numerous vital areas;
- o trust in the openness and integrity of the government was low;
- o major social problems were being ignored or inadequately addressed by the Federal government.

In the ensuing two years, we have tackled these problems head-on. While problems cannot be solved overnight, real progress has been made:

- o the economy has strengthened -- real Gross National Product has increased 10% and real disposable personal income has increased 8.9%;
- o unemployment has decreased by 25% since my election, from nearly 8% to 5.9%; over 7.3 million new jobs have been created; total employment has reached a record of 95.9 million;
- o a comprehensive national energy policy has been enacted and a Department of Energy created to help implement it;
- o the first reform of Civil Service System in nearly a century was enacted; 6 reorganization plans have been approved and implemented; the Federal paperwork burden has been reduced by 10%; inspectors general are being placed in departments and agencies to help find fraud and abuse; zero-based budgeting practices have been instituted throughout the government; several hundred million dollars have been saved through sound cash management reforms; regulations are being written in simple English, and a Regulatory Council has been established to develop the Nation's first regulatory calendar and agenda;

- o a renewed sense of confidence and faith in the government has been established;
- o long-ignored domestic problems have been attacked aggressively; the Nation's first urban policy was developed and substantially implemented; the Social Security System was re-financed to assure its long run solvency; the Humphrey-Hawkins Full Employment Act was passed; aid to education has been expanded by 50%; and a welfare reform program was developed and debated in Congress and will serve as a foundation for our efforts this year to overhaul the welfare system.

DOMESTIC

Over the next year, our domestic program will concentrate on further developing a new foundation for progress in each of several areas:

- o restraining inflation, while continuing to pursue our employment and other economic and budgetary goals;
- o making government more efficient and effective;
- o enhancing basic human and social needs;
- o protecting rights and liberties; and
- o preserving and developing our natural resources.

INFLATION

My Administration's major domestic priority is to reduce the rate of increase in inflation. That is clearly the major domestic concern of the American people, and it is the problem they are looking to us to help solve. Inflation places a cruel burden on the poor and on those on fixed incomes. It serves as a disincentive to investment. It threatens our continued economic growth and job creation.

I am determined to meet the challenge now before us. Last October I announced an anti-inflation program which can aid significantly in the effort to reduce inflation. It is a tough and responsible voluntary program.

Throughout this year, we will be working to implement our anti-inflation program. Part of the program requires new legislation, and we intend to work closely with you in developing and enacting that legislation.

The effort to reduce inflation will be one of the most difficult battles our government has undertaken in many years. But it is not a battle we can afford to lose. With your cooperation, we can and will win.

THE 1980 BUDGET

In announcing my anti-inflation program last year, I made a commitment to the American people to reduce the budget deficit for fiscal year 1980 to \$30 billion or less. The budget I submitted to the Congress honored that commitment. The FY '80 budget projects a deficit of \$29 billion, which is less than half the deficit I inherited two years ago and represents the smallest budget deficit in the last six fiscal years.

The FY '80 budget has \$531.6 billion in projected budget outlays, which is an increase of only 7.7% above the previous year. That is the smallest annual increase in Federal spending in the last seven years.

The \$531.6 billion spending total also means that we will be meeting my goal of reducing Federal spending to about 21% of Gross National Product one year ahead of schedule.

The decisions I had to make in restraining spending were obviously difficult. But if we are to succeed in breaking the back of inflation, Federal spending must be restrained to set an example for the private sector. If there were easier solutions, they would have been taken by now.

Finally, I want to emphasize that my FY '80 budget, does not neglect the basic needs of the disadvantaged, the poor, and the unemployed. For instance, the budget will provide \$4.5 billion in increased assistance to the poor. It also will provide a total of \$11.2 billion for adult and youth employment and training programs, which will be especially targeted to the disadvantaged and long-term unemployed.

In short, this budget is austere, but it also maintains our commitment to help those in our country who most need help.

HOSPITAL COST CONTAINMENT

One of my highest legislative priorities for this year is hospital cost containment. Clearly the most inflationary part of health care costs in recent years has been in the hospital industry. Last year, hospital charges grew at the rate of about 13 percent. Experience in several States has shown that through programs such as the one I will propose, hospitals can save money and reduce costs through sound cost containment practices. I expect to shortly propose hospital cost containment legislation which will build on the proposal passed last year by the Senate.

REAL WAGE INSURANCE

I have proposed to the Congress a real wage insurance program to protect employee groups that comply with the 7% voluntary wage standard against losses in purchasing power if inflation exceeds 7%. If inflation exceeds 7%, these employees will receive a tax refund equal to their 1979 income up to \$20,000 times the difference between the actual inflation rate (up to 10%) and 7%. This program will give workers a strong economic incentive to cooperate with the voluntary pay standards I have established, thereby helping to break the wage/price spiral that is at the root of the current persistent inflation.

This is a novel approach to the inflation problem. But the persistence of high inflation for the past ten years makes it clear that new solutions are needed. Innovative approaches must be added to the arsenal if we are to break the back of inflation. Real wage insurance represents the type of innovative approach which is required: it will provide a significant tax benefit for those working people who participate in helping to reduce the inflationary cycle, but without raising taxes for anyone else.

My Administration intends to work very closely with Congress in developing and enacting a real wage insurance law.

VOLUNTARY PAY AND PRICE STANDARDS

It is vital that our program of voluntary pay-price standards can succeed. At stake is the reduced rate of inflation that all Americans demand and deserve. The cooperation of business and labor is obviously essential, and we have already had clear evidence of their willingness to join in this effort. I have already received assurance from of the Nation's largest corporations that they will comply with the standards. And just recently the Oil, Chemical, and Atomic Workers Union reached agreement on a contract with the major refineries that met the pay standards.

Throughout this year the wage and price standards will continually be tested. Your cooperation in encouraging voluntary compliance can help ensure the standards' success. The Administration will keep the Congress fully informed and involved as we work to implement this program.

STATE AND LOCAL GOVERNMENTS

If we are to succeed in our anti-inflation efforts, the cooperation and active participation of State and local governments is essential. We will soon announce, a program which actively involves the Governors, Mayors, County Executives, and other local officials in a comprehensive approach to restrain inflationary pressures within their control.

THE NECESSITIES

In recent years, the greatest inflationary burden on the working men and women has involved necessities of life -- food, energy, housing, and medical care. An effective anti-inflation program must involve a series of concerted attacks on the sources of rising prices in these vital sectors.

In each of these areas, the Administration has established task forces to identify existing government policies that unreasonably inflate prices, and to suggest actions that can be taken, at both national and local levels, to combat inflation. In these efforts we will work directly with Congress, State and local governments, and consumer groups.

MULTILATERAL TRADE NEGOTIATIONS (MTN)

I have already notified the Congress that we expect to sign and submit for Congressional approval a set of trade agreements which we will reach in the Tokyo Round of the Multilateral Trade Negotiations. With these agreements, we expect to achieve major reductions in tariff and nontariff barriers to international trade. These agreements will:

- lead to increased opportunities for U.S. exports;

- ensure that import competition is fair; and
- result in lower prices, increased competition, and greater prosperity for the American people.

Passage of the MTN will be one of my highest legislative priorities this year.

COUNTERVAILING DUTIES

I have recently sent to the Congress a message urging prompt passage of legislation permitting the waiver of the imposition of countervailing duties on certain imported products. Passage is essential to the successful completion of the Multilateral Trade Negotiations, and, therefore, should be one of Congress' highest priorities at the beginning of this session.

EXPORTS

The United States has entered a period where export growth is essential to improve our balance of payments, strengthen the dollar, and thereby help reduce inflationary pressures. To do this, both the private sector and the Federal government must place a higher priority on exports.

With the National Export Policy I announced last year, we are moving to meet this need. First, we are working to reduce domestic barriers to exports so that exporters

are not stifled by excessive governmental regulation. Second, we are providing further incentives in the form of better export financing and better government export development programs. Third, we are working with our trading partners in the Multilateral Trade Negotiations to reduce foreign barriers to our exports and to secure a fairer international trading system for all exporters.

Although these actions should expand our exports in 1979 and help us move toward a reduced trade deficit, they will not cure our serious balance of trade difficulties overnight. They are the first steps in an essential, long-term effort to strengthen the U.S. position in world trade, while reaffirming the Nation's commitment to maintain an open world trading system and to resist protectionism.

COUNCIL ON WAGE AND PRICE STABILITY

The Council on Wage and Price Stability is playing a vital role in our anti-inflation efforts. The Council and its staff have the lead responsibility within the Executive Branch for implementing the voluntary wage and price standards that I have announced. Without the Council's continuing role, the anti-inflation effort would have a very slim chance of succeeding.

I therefore believe it is essential that the Council, along with its staff operation, be reauthorized early this year with additional staff to handle the enormous volume of work under my anti-inflation program. The reauthorization should not contain amendments that interrupt or restrain the necessary work of the Council or its staff.

EMPLOYMENT

The Administration, working closely with Congress, has made significant progress over the last two years in reducing unemployment and creating new jobs:

- o The December unemployment rate of 5.9% represents almost a 25% reduction from the December, 1976 rate.
- o Over 7.2 million more people have jobs than they did before the beginning of the Administration. This increase exceeds the employment growth in any other two-year period since World War II.
- o Total employment has reached an all-time high of 95.9 million.
- o Over the past two years black employment is up by 12%; and black teenage employment is up by 19.7%; adult female employment has increased by 10.5%; teenage employment overall has increased by 11%. Although progress has been made, unemployment remains unacceptably high for these groups. And in inner-city areas unemployment remains much too high for all workers.

Last year, which ended with the lowest unemployment rate in 3 years, a framework for continued progress into the next decade was established:

- o the Comprehensive Employment and Training Act (CETA) was reauthorized at high levels for four more years;
- o the Humphrey-Hawkins Full Employment Act became law after many years of effort;
- o the Administration's demonstration youth programs were extended for two more years;
- o a new partnership between the government and the private sector to assist the unemployed was approved by Congress with the passage of a new Title 7 of CETA -- the Private Sector Initiatives Program; the targeted jobs tax credit, to encourage private employees to hire our poor young people and others who are hard to employ; and an expanded tax credit for mothers on welfare.

In 1979 this framework will help us continue to improve the employment prospects for America's workers. We especially want to improve the targeting of job creation programs to those who most need these opportunities and to improve the quality of the training and employment assistance for the poor, blacks, Hispanics, youth and women.

We expect to achieve these goals through a number of actions:

First, we will continue working toward achievement of the Humphrey-Hawkins Full Employment Act goals. We will provide an average of 546,000 CETA public jobs, and shift many of them to the long-term or "structurally" unemployed. We will continue to search for the most promising ways to reduce the structural unemployment that denies many the opportunity for full participation in American life.

Second, we will begin implementing the new Private Sector programs, including establishment of Private Industry Councils in communities throughout the country to encourage business to hire the hard-core unemployed. I am proposing to Congress that this effort be supported at a level of \$400 million this year.

Third, we will continue our special efforts to provide jobs and training programs for young workers in cooperation with community-based organizations and the private sector. We must meet our responsibility to provide opportunities for young Americans to learn to work.

Fourth, we will take steps to improve the management and delivery of employment and training services. I will seek a reform of the Wagner-Peyser Act, which authorizes the U.S. Employment Service, to integrate that program more effectively into our employment and training system. My Administration will also implement the CETA amendments, which establish practices and procedures to improve the quality of programs, provide better management and prevent fraud and abuse.

MAKING GOVERNMENT MORE EFFICIENT AND EFFECTIVE

The American people are demanding a Federal government which is effective and efficient. For the past two years, I have worked toward that goal by reorganizing and reforming the government's operation and by uncovering and removing fraud, waste and abuse. Real progress has been made. But the government is still not operating as competently as I want or the American people deserve. In 1979, we must build on the base of the last two years to provide our people with the type of government they deserve. Your help in this effort is essential.

REORGANIZATION

We have begun to reorganize the government through the creation of a Cabinet-level Department of Energy and the changes resulting from the six reorganization plans approved by Congress over the past two years. Those plans helped to reshape and improve the operation of the Executive Office of the President, the international cultural and communications agencies, emergency preparedness agencies, the equal employment opportunity enforcement agencies, the Civil Service Commission, and the administration of ERISA.

I will again propose to the Congress that a Cabinet-level Department of Education be created. This will be a very high priority of this Administration. Education issues deserve far more attention and more accountable management than they can receive in a department as large and complex as HEW. The department would provide a Cabinet-level official devoting full-time attention to education and reporting directly to me. It will also enable the Federal government to be a more responsive and reliable partner with States, localities, and private institutions which have primary responsibility for education.

I will also be proposing to Congress reorganization plans involving the areas of natural resources and economic development, and will intensively pursue reorganization studies in the areas of surface transportation, the Selective Service system and the Alaska natural gas pipeline. The natural resources and economic development assistance reorganizations involve areas where overlap, duplication and unclear authority have hamstrung our efforts. Reorganization here can save money and people. We will be consulting closely with Congress over the next several weeks before submitting these reorganization plans.

REGULATORY REFORM

Last year we took major steps toward reform of the Federal regulatory system. The dramatic reductions in airline prices that occurred when Congress joined with us to lift the heavy hand of Federal regulation illustrate the advantages of letting the competitive market, rather than government, control industry performance. The public will benefit similarly through improved service, increased competition, and lower Federal expenditures, if we reform Federal regulation of surface transportation. I will send to you shortly a Surface Transportation Reform Message dealing with the rail, inter-city bus, and trucking industries.

In 1978 I used my authority as Chief Executive to improve the management of the Federal regulatory process. I issued Executive Order 12044, setting standards to ensure that each Executive Branch regulatory agency facilitates public participation and avoids needless costs. A regulatory analysis program was established under an inter-agency Regulatory Analysis Review Group to help ensure that major new regulations are as cost-effective as possible. The

Executive Order also established procedures for all Executive Branch agencies to conduct sunset reviews to reevaluate outdated regulations and remove them from the books wherever warranted. Finally, I created a Regulatory Council composed of the Executive Branch regulatory agencies, with voluntary participation by independent agencies, to compose a calendar of all significant Federal regulations to be issued or proposed in 1979. The Nation's first Regulatory Calendar will be published next month and will be used to eliminate duplication, overlap, and inconsistent practices.

This year I will propose to Congress a number of legislative actions that can be taken to improve the regulatory process. They will include improvements in specific regulatory programs, as well as a Regulatory Reform Act applicable to all programs.

The quality of regulations can also be improved by providing opportunities for all interested parties to participate in regulatory proceedings. Public involvement can be enhanced by providing financial assistance to those whose participation is limited by their economic circumstances. While many agencies have inherent authority to fund participation, we will seek legislation to specifically authorize these programs.

While I will propose a wide-ranging legislative program, I will continue to oppose the legislative veto. This approach is unconstitutional; it increases uncertainty, delay, and badly drawn regulations; and it deflects attention from the real solutions.

None of our actions in this area will be taken at the expense of my deep personal commitment to protect health and safety in the environment, the workplace, the highway, and consumer products; and to prevent deception and unfairness to consumers. My regulatory reform program will make needed programs work better, cost less, and gain support among all sectors of our society.

CIVIL SERVICE AND PAY REFORM

Enactment of the Civil Service Reform Act of 1978 by the 95th Congress represented one of the finest examples of cooperation between the legislative and Executive Branches in recent times. That effort showed a determination to respond to the clear public desire to improve the management of the Federal bureaucracy. Implementation of the Reform Act is well under way. The Office of Personnel Management, the Merit Systems Protection Board, and the Federal Labor Relations Authority authorized by the Act have been established. In addition, the heads of the Federal departments and agencies have moved promptly to implement the new personnel procedures that will permit a better motivated and more effective civil service.

However, other improvements in management of the government's work force are needed. Both our white collar and blue collar pay-setting systems must be reformed in order to make certain that we neither overpay nor underpay Federal employees. Therefore, I will propose Federal pay reform legislation to the Congress that is equitable to Federal employees and the public.

PUBLIC FINANCING

The time is long overdue for reforming the way Congressional elections are financed. The current flood of money threatens to prevent our electoral process. We can no longer permit our elections to be open to the highest bidder. The recent elections have clearly demonstrated the kinds of problems caused by uncontrolled campaign spending. It is time to adopt public financing for Congressional elections -- before it is too late. Public financing operated successfully in the last Presidential election, and it can do the same in Congressional races. My Administration will work with Congress for passage of a sound Congressional public financing law.

SUNSET

My Administration will again work with the Congress to enact a sound sunset bill covering spending programs and tax expenditures. Under such a bill, each Federal program would have to be carefully re-examined on a periodic basis to determine whether its continued existence is justified. Through such a procedure, the American people can be assured that unnecessary government programs and agencies will be ended rather than continued through the force of inertia.

There are a few more important building-stones to the new foundation of government efficiency we seek than passage of sunset legislation. It goes to the heart of making government work.

LOBBY REFORM

The American people have a right to know what significant influences affect their national legislature. The proliferation of well financed, organizational lobbying activities during recent years has demonstrated the clear need for reform of the outdated and ineffective lobby disclosure law now in effect. This year my Administration will continue to work with Congress to pass a sound lobby law reform bill -- one that respects the First Amendment right of all Americans and minimizes paperwork burdens, yet allows meaningful disclosures.

WASTE, FRAUD, AND INEFFICIENCY

Although the vast majority of Federal employees are able, honest and hardworking, we need to continue to be vigilant to ensure that the taxpayers' dollars are not wasted through fraud or abuse. The implementation of civil service reform will lead to improvements in agency management practices and program efficiency. In addition, I am committed to continuing to cut excess paperwork, simplify grants requirements, and evaluate our programs better and more frequently. We have already significantly reduced the paperwork burden and implemented many of the recommendations of the Federal Paperwork Commission. We will continue to do more in 1979.

Early this year I will nominate highly qualified Inspectors General armed with tough new powers to prevent waste and corruption. The Justice Department will increase its already intensive effort to prosecute those few employees and contractors who abuse the public trust. In addition, a new Office of Ethics in the Office of Personnel Management and a Special Counsel in the Merit System Protection Board will help ensure the integrity of the Federal work force.

STATE AND LOCAL GOVERNMENT RELATIONS

As the first President in more than thirty years to be elected immediately after service as a Governor, I have made relations with State and local government a high priority of my Administration. During my first two years in office, we have strengthened the Federal system significantly. We have involved the Federal Regional Directors in the management of the government and have reinvigorated the Federal Regional Councils. As a result, the Federal government is now able to respond better and more quickly to State and local needs. In addition, we have involved State and local officials in the development of our policies to a greater degree than any previous Administration.

Since 1977, Federal grants-in-aid to State and local governments have increased to more than \$80 billion per year, 25 percent above the level of aid when I first took office. Progress has also been made towards my goal of giving Governors, Mayors, and county officials more flexibility in managing Federal programs. The Federal government is now taking seriously, for the first time, the burdens and costs we impose on State and local governments and all taxpayers when we legislate and regulate from the Federal level.

In this time of limited budget resources we must achieve more cost-effective management of Federal resources and place greater reliance on the experience, knowledge, and ability of State and local governments.

In the future, we must attempt to limit the imposition of new costs on State and local governments, and to avoid where possible prescribing every detail of how they administer Federal programs. We must work together to identify specific ways in which more flexibility can be given to State, city, and county officials in the administration of Federal programs without compromising the national purposes that each program is designed to serve.

TRANSPORTATION

In 1979 we shall continue the effort begun in the 95th Congress to reduce the regulatory burden on the Nation's transportation industry. Our proposals for surface transportation deregulation will build upon the principles of increased competition that have proven successful for the airline industry.

Shortly, I will propose broad legislation which begins to deregulate the railroad industry. Regulatory reform is a crucial first step toward revitalizing this important transportation mode.

In addition, I will also be proposing significant reductions in regulation of trucking and inter-city bus transportation.

We are also committed to improving the level of safety for our transportation industry. As part of this effort, we intend vigorously to pursue legislation improving equipment and conditions affecting truck drivers, and giving stronger enforcement authority to Federal agencies.

My forthcoming Surface Transportation Regulatory Reform message will provide the details of these proposals.

Finally, I will propose overdue changes in the Nation's maritime policies. We must improve the ability of our Merchant Marine to win a fair share of our cargo.

NO-FAULT

The Administration will continue to support legislation to establish Federal minimum standards for state no-fault automobile compensation systems. No-fault systems have proven to be far more efficient in delivering benefits to the victims of automobile accidents than the current tort system, and they also provide greater opportunities to coordinate and reduce overall insurance costs. Too great a percentage of the premiums paid by policy-holders goes for the administration of the current wasteful tort liability system. No-fault would save money and court-time. It deserves Congressional support.

CONSUMER REPRESENTATION

My Administration has developed new procedures that will set standards and assess performance for effective public representation within government agencies. These procedures are designed not only to improve the delivery of government services to our citizens, but also to enhance the awareness of government to the health, safety, and economic concerns of all consumers. In 1979, we will direct adequate resources to these procedures, which include complaint handling, training and technical assistance for consumer organizations, advocacy, consumer education and information, and citizen participation.

LEAA

Last year I proposed legislation which would institute significant and long-overdue changes in the structure and programs of the Law Enforcement Assistance Administration.

The LEAA has the potential to improve and strengthen State and local law criminal justice programs, but in its present form it has fallen far short of its potential. My Administration will work with the Congress again this year to reform this framework, which includes a National Institute of Justice to enable us to obtain better information and research about crime problems. Once the legislation is enacted, we will make certain that the new agency is efficiently carrying out its mission of providing meaningful Federal law enforcement assistance.

JUDGESHIPS

Last year my Administration worked closely with the Congress to enact legislation creating the additional Federal judgeships needed to reduce our court's backlogs and delays. As a result, I will soon be nominating 152 new Federal judges -- the largest addition to the Federal judiciary in our history. Some of these judges will still be serving in the next century.

I am determined to nominate judges of the highest quality; our Federal judiciary must be selected on the basis of merit. I am also determined to increase the low representation on the Federal bench of women, blacks, Hispanics, and other minorities. These goals are within our reach, if we work together cooperatively and recognize the importance our country places in the selection of these new judges.

JUDICIAL REFORM

Because our Federal courts do not function as well as we have the right to expect, my Administration has made judicial reform one of its goals. During 1978, Congress took major steps toward alleviating the problem by increasing substantially the number of Federal judges and by adopting numerous substantive and procedural reforms in the handling of bankruptcy matters.

Other judicial reforms remain to be made. Some, such as expanding the authority of magistrates and curtailing diversity jurisdiction, were proposed to the last Congress. I will shortly send a message to the Congress urging prompt action on these and several additional proposals designed to improve the responsiveness and efficiency of our system of justice. They merit the attention and approval of the Congress.

In addition, the Administration will continue to support, as was indicated in my Consumer Message to Congress, reform of class action procedures. Reform legislation should seek to ease unnecessary burdens and costs of class actions, while at the same time prevent them from being used in a harassing manner.

ANTITRUST ENFORCEMENT AND COMPETITION

Competition and free enterprise, protected by the antitrust laws, are the central organizing principles of our economic system. Competition produces powerful incentives for innovation and efficiency, fights inflation, and enhances consumer welfare. Strict enforcement of our antitrust laws are critical to the health of competition and the Nation's economy.

Several important strides were made last year in improving antitrust enforcement. In 1978, the courts imposed over \$11 million in corporate fines for antitrust violations and imprisoned 29 individuals for antitrust violations. These fines and sentences are significantly larger than in past years, and are consistent with my strong commitment to vigorous antitrust enforcement.

Last year I appointed the National Commission for the Review of Antitrust Laws and Procedures to suggest ways of expediting antitrust cases and making relief more effective. Its members have recently reported to me, and we will work closely with the Congress and the Judicial Conference to implement many of its recommendations.

Similar progress in improving the effectiveness of antitrust enforcement can be made in the 96th Congress.

I continue to support legislation to allow those who are injured by antitrust violations to recover damages from the antitrust violator, whether the injured person is a direct or indirect purchaser. Under the Supreme Court's decision in the Illinois Brick Case only direct purchasers may recover, even though they may have passed on the injury to consumers, who are prevented from suing. This decision undercuts state and private enforcement of the antitrust laws, reduces their deterrent effect, may contribute to higher prices, and often allows the violator to keep his gain at the expense of the injured consumer. This needed legislation would overturn that decision.

BANKING

I anticipate receiving shortly the recommendations of the Administration's Task Force studying Regulation Q and the system of deposit interest rate controls, and I expect to make recommendations based upon the Task Force's findings.

My Administration remains supportive of Congressional action to deal with the need to halt the continuing attrition in the percentage of bank deposits subject to the reserve requirements of the Federal Reserve System.

CARRYOVER BASIS

Carryover basis was one of the most important reforms passed by Congress in the Tax Reform Act of 1976. This reform would add substantial equity to our tax laws and greater efficiency to our capital markets.

The carryover basis reform has the effect of ending a situation in which many of our wealthiest taxpayers could permanently escape paying income tax on their gains from inherited property. Unfortunately, the effective date has been delayed until the end of 1979.

My Administration will strongly oppose any efforts to repeal this reform or further delay its implementation.

ENHANCING BASIC HUMAN AND SOCIAL NEEDS

In the years immediately preceding my Administration, too many of our Nation's basic human and social needs were being ignored or handled insensitively by the Federal government. Over the past two years, we have significantly increased funding for many of the vital programs in these areas; developed new programs where needs were unaddressed; targeted Federal support to those individuals and areas most in need of our assistance; and removed barriers that unnecessarily kept many disadvantaged citizens from obtaining aid for their most basic needs.

The progress over the past two years has noticeably moved us forward in solving some of the country's fundamental human and social problems. My Administration has vastly expanded assistance in the last twenty-four months in areas of employment, education, housing, community and economic development and health care, which represent an improvement for the American people.

The record of the past two years demonstrates that government can meet our citizens' basic human and social needs in a compassionate way. No longer can there be any doubt that the government is able to treat American's problems with sensitivity.

In the coming fiscal year, budget restraints will make it more difficult to expand funding significantly for many major domestic programs, though some programs

will be increased. We have done all we possibly could under the current difficult economic conditions, although I would have liked to do more under better economic circumstances and lower inflation. We must take this time to make certain we lay a solid foundation for future social progress.

HEALTH PROGRAM

One of the highest goals of the 96th Congress should be taking action to provide all Americans with the opportunity to lead a more healthy life. This opportunity has been denied to many in our country because of health care services which are unaffordable, inaccessible, and inefficient. In addition, our current system of health care is focused on the treatment of disease, with too little attention being directed toward its prevention. We need a national health strategy which corrects these inadequacies in the existing system. Some of the elements of this strategy are already in place and need only be strengthened. Others will require new legislation from the 96th Congress.

NATIONAL HEALTH PLAN

Last year I outlined the principles upon which the National Health Plan I plan to propose will be based. Based on those principles, the Administration has been working to develop a National Health Plan that will enable the country to reach the goal of comprehensive mandatory and universal health care coverage. I remain committed to that goal.

The need for improved health care coverage is clear:

- o About 19 million Americans have no health insurance.
- o Another 65 million Americans face potential bankruptcy because they lack insurance protecting them against catastrophic medical expenses.

- o The health care system is highly inflationary. Spending in the health care industry -- has been rising at an annual rate of 12%. These expenditures cannot be successfully contained under current health delivery and financing methods, which produce unnecessary hospitalization, over-reliance on expensive technology and inadequate preventive care.
- o Health resources are unevenly distributed across the country, resulting in significant gaps in vital medical services for many residents of rural and inner city areas.

Over the next several weeks, we will be consulting closely with Congress and interested outside groups on the scope and nature of the plan I will propose. I expect to submit a plan shortly after those consultations have been completed, and I look forward to working with the Congress toward a prompt enactment of that plan.

An essential companion to any Plan must be hospital cost containment legislation. As I have indicated earlier in this Message, I will make passage of that legislation one of my highest priorities this year.

Our effort to control health care costs would be further strengthened by the early passage of the Health Planning Act.

We must also continue to promote competition in the health care sector of the economy. Accordingly, the FY '80 budget expands Federal support for Health Maintenance Organizations, which have demonstrated a significant potential for cost saving. I will also continue to press for reforms making it easier for HMO's to obtain equitable reimbursement under Medicare and Medicaid.

PREVENTION AND ACCESSIBLE HEALTH SERVICES

More health care services alone, however, will not necessarily improve the health status of our Nation -- even if these services are affordable, accessible, and efficient. Our national health strategy must direct more attention to health promotion and disease prevention if we are to achieve our goal of improved health status. The Surgeon General will present this year a major report outlining our needs in this area. I will be asking for your help in carrying out its recommendations.

We have made great strides in expanding the availability of health care services to rural and low-income urban areas in recent years through the creation of the National Health Service Corps and the establishment of a system of Community Health Centers. If health care is to be accessible to all Americans, these programs must be expanded, and the FY '80 budget provides for such an expansion.

CHILD HEALTH ASSESSMENT

I believe that our health strategy must place high priority on the health of our children. Accordingly, I will submit a revised Child Health Assessment Program to improve the early and preventive screening, diagnosis, and treatment program for lower-income children under Medicaid. This program would cover over 2,000,000 low-income children who are not receiving Medicaid services. An additional 100,000 low-income pregnant women would become eligible for medical services prior to delivery, improving the health of both the mothers and infants.

MENTAL HEALTH

Based upon last year's recommendations of the President's Commission on Mental Health, I will be proposing comprehensive mental health legislation this year along with a Mental Health Message. A new Community Mental Health System will make new efforts to link mental health, health, and social

services for the chronically mentally ill to enable them to live successfully in the community and will provide new community mental health services. We will emphasize efforts to provide improved recognition and treatment of mental health problems in the general health care system. In addition, we will increase support for mental health research to restore our mental health research capacity, which the Commission found had seriously eroded over the past decade.

The First Lady has helped spearhead the Administration's efforts to sensitize the Nation to the problems in the mental health area. She will continue to work directly with me to implement the pertinent recommendations of the Commission.

DRUG ABUSE

In continuing our efforts to combat drug abuse, my Administration will rely on those programs and initiatives which have proven to be successful in the past year and which serve as building blocks for future programs. Today, in the United States, there are 110,000 fewer heroin addicts than there were in 1975; 1,000 fewer Americans died of heroin overdoses in the twelve-month period ending June 30, 1978 than in the previous twelve months. Seizures of illegal drugs are at their highest level ever. Improved coordination and cooperation among Federal agencies have resulted in a more effective drug program without major budget increases. But much remains to be done.

In 1979 we will look more to the behavior of the individual who turns to drugs, will stress financial investigations as a means of prosecuting those individuals responsible for the drug traffic, and will rely heavily on enlisting foreign cooperation in the overall drug program. These efforts should further our success in controlling drug abuse both in the United States and abroad.

DRUG REGULATION REFORM

My Administration will continue to work with the Congress to overhaul our current drug regulation laws in order to assure that consumers have prompt access to safe and effective drugs.

FOOD AND NUTRITION

Last year, we worked with the Congress to enact the Child Nutrition Amendments, which revamped many of our food programs and greatly expanded the Supplemental Food Program for Women, Infants and Children. This year I will propose further legislation to strengthen these and other food programs by: improving the targeting of school meal programs for the needy; instituting an error sanction scheme to encourage States to reduce costly Food Stamp errors; and eliminating the cap on food stamp expenditures. These will insure that additional nutrition resources are targeted to those truly in need.

WORKER HEALTH AND SAFETY

We will continue to fully enforce laws protecting worker health and safety in a sensible and efficient manner. There will be further efforts to eliminate frivolous and unneeded rules while concentrating greater enforcement efforts on the most dangerous and particularly the most unhealthy occupational environments. More efficient management of this program will serve the interest that both labor and management have in better working conditions.

HOUSING

We are committed to holding down housing construction costs and eliminating unnecessary regulatory burdens, so that the American consumer will have an affordable choice in the housing marketplace. Our efforts will be accelerated this year.

The Administration has supported the provision of Federal housing assistance to low-and-moderate income people, including the elderly and the handicapped.

During the period of 1978 through 1980, the Administration will have committed resources for over one million additional units of assisted housing for low-and-moderate income renters and homeowners. This is evidence of our commitment to the goal of a decent home for every American. In 1980, I am recommending 325,000 units of housing for low-and-moderate income persons.

The problems of providing adequate housing in rural areas is especially acute. Lack of available land, high site development costs, widespread substandard, overcrowded housing, and limited credit opportunities continue to plague rural areas. Government attempts to help are often hampered by inappropriate, burdensome regulations and paperwork. This year the Administration will take steps to assure that Federal regulations accommodate locally acceptable housing codes and that the endless paperwork, inspections, and processing requirements currently mandated by the three major housing agencies, HUD, FHA, and VA are consolidated and streamlined.

COMMUNITY DEVELOPMENT

My Administration remains committed to a partnership involving Federal, State, county, and local governments, the private sector, and community organizations. The Community Development Block Grant program is a cornerstone of that partnership, and I am proposing in my FY '80 budget that it be funded at the full authorization level. This will be an increase of \$150 million in FY '80 above the FY '79 level.

In 1977, we developed the Urban Development Action Grant program and it has already succeeded in leveraging \$2.9 billion in private investment and creating or saving 125,000 jobs. I am proposing a continuation of the Action Grant program next year, at the \$400 million authorization level.

NEIGHBORHOODS

My Administration has been devoted to the preservation of neighborhoods and the development of sound neighborhood self-help projects. This goal has been evident in the emphasis on neighborhoods in my urban policy as well as in the operation of the Department of Housing and Urban Development and other agencies. Last year, as part of our urban policy, we proposed and Congress passed the Livable Cities and Neighborhood Self-Help Development program to enable neighborhood groups and organizations to rebuild their neighborhoods. In addition, Congressional passage of the National Consumer Cooperative Bank makes available new sources of financing and technical assistance to groups who are engaged in building cooperative enterprises to reduce costs in key consumer goods and services.

This year, my Administration and Congress will receive the final report of the National Commission on Neighborhoods. We look forward to working with the Congress on many of the Commission's recommendations. With your help, we can make the Federal government increasingly more responsive to the needs of neighborhood people who are working together to meet basic needs in housing and community development, health care, nutrition, and energy conservation.

URBAN POLICY

Last year, I proposed the Nation's first comprehensive urban policy. That policy involved more than one hundred improvements in existing Federal programs, four new Executive Orders and nineteen pieces of urban-oriented legislation. With Congress' cooperation, thirteen of these bills passed last year.

I will again propose to the Congress several important parts of the urban policy not adopted last year. The two principal proposals are: an urban fiscal assistance program, and the National Development Bank.

My fiscal assistance proposal will include two principal components. The first, a standby countercyclical fiscal assistance program, will protect State and local governments against unexpected changes in the national economy. It would trigger into place if the national unemployment rate rises above 6.5 percent and would provide fiscal aid to many needy governments. The second component is a transitional, highly targeted fiscal assistance program that provides fiscal aid to only the most fiscally-distressed local governments. Relatively few cities and counties will be eligible for this highly targeted program; but those who are will be truly in need. I will seek a \$250 million supplemental in FY '79 and \$150 million in FY '80 for this targeted fiscal assistance program.

I also will propose a National Development Bank to provide financing for local economic development projects which will aid the revitalization of our Nation's communities. As part of the Bank, I will propose a significant increase in economic development funding -- \$550 million in new economic development capital grants to business and \$2.65 billion in new loan guarantee authority for FY '80.

This Bank will be the central engine for the economic development in the government. We will propose the consolidation of many economic development loan programs into the Bank as part of the economic development reorganization. This will add over \$1 billion in additional loan authority.

SOCIAL SECURITY REFORMS

In 1977, the Congress worked with the Administration to take the difficult but necessary action to make the Social Security system sound through the balance of this century. In so doing, we helped protect the retirement benefits of current recipients and of those now working. This year the Administration will propose legislation to trim the costs of certain benefits in an effort to ensure that this bedrock social program becomes more equitable and remains affordable. There will be ample opportunity provided to the Social Security Advisory Committee and the National Commission on Social Security to review the changes the Administration will propose prior to their submission and to provide their recommendations to the Administration and to the Congress.

If the Administration's proposals for Social Security outlay reductions and hospital cost containment legislation are enacted, it would be possible to consider a reduction in Social Security taxes beginning in 1981. However, such a reduction would have to be considered in light of alternative uses of such savings, including reduction of any budget deficit and funding of high-priority programs.

Beyond the immediate reforms I have proposed, the Administration is committed to review the entire pension system that has developed in our country. I have established a Pension Commission to provide the type of long-range analysis this vital area needs.

DISABILITY INSURANCE REFORMS

I will propose to Congress an integrated package of reforms for the Disability Insurance system. These measures will improve incentives for rehabilitation of the disabled, ensure that benefits do not exceed pre-disability disposable income, and make administration of the system simpler and more consistent. We must make certain that those who should receive benefits are not excluded, but that those who are not truly disabled or can otherwise return to work, do so.

WELFARE REFORM

The Nation's welfare system is inequitable, inefficient and long overdue for serious reform.

I will recommend to the Congress a package consisting of reforms in cash assistance, expansion of the earned income tax credit, and fiscal relief for State and local governments. This package will enable us to develop a welfare system that is more simple, narrows the great differences in the way States help the very poor, that encourages people to work, and that helps eliminate the fraud and abuse currently plaguing parts of our welfare system.

My Administration has already begun to work closely with this Congress to enact welfare reform this year. We must expeditiously move forward with welfare reform this year.

FAMILIES

Most of our major initiatives and goals for this year will be undertaken with vigor and with a commitment to the security and enhancement of the American family structure. Our government must never impede nor work against the American family, but rather we must design programs and

policies that support families and ensure that future generations of American families will thrive and prosper. The White House Conference on Families will continue its planning on an expedited basis this year with that goal firmly in mind.

CHILD WELFARE REFORM

The Nation's present system of overlapping, inadequate child placement programs does a great disservice to parents, foster parents, and children in need of homes. There is too little emphasis on reunification of families and permanent placement of children; the special problems of hard-to-place children often go unattended. I will therefore again propose to Congress major reforms in our foster care and adoption services, and urge prompt Congressional approval. This problem must not be left unattended any longer.

OLDER AMERICANS

Early in the Administration we moved to correct one of the major concerns of older Americans: the possible bankruptcy of the Social Security Trust Funds. The legislation that was enacted ensures the financial solvency of the funds through the beginning of the next century.

The Administration has also enacted to help remove discrimination against senior citizens by supporting the legislation which removed the forced retirement requirement in the Federal civil service and postponed mandatory retirement in the private sector from age 65 to 70. In addition, the Administration worked with the Congress to amend the Older Americans Act in a way that will improve the administration of the Act's social and housing programs, employment provisions, food delivery, and establishment of centers for the elderly.

This year the Administration will continue its efforts to ensure that seniors remain in the mainstream of American life, free from age discrimination and able to receive the assistance and other benefits they have earned.

VETERANS

Our Nation has no obligation more basic than providing for those men and women who served us as members of our armed forces.

There are still many veterans who need medical care, employment assistance, and assistance in adjusting to disabilities that resulted from their service.

During the last two years we have made significant improvements in programs to help meet all these needs.

In 1979 my Administration will seek legislation to increase compensation rates for disabled veterans, improve education programs for the disadvantaged under the G. I. Bill, provide special readjustment counseling assistance for those Vietnam Era Veterans who need them, and modernize the VA vocational rehabilitation program. These efforts will help veterans help themselves. In addition, we will continue to provide quality medical care in our VA hospital system by making it more efficient and thus more responsive to the needs of a changing veteran population.

EDUCATION

Improving skills and educational opportunities has been one of my Administration's major goals. To aid in this improvement, I have increased the Federal Office of Education budget authority alone by 50% since taking office -- from \$8 billion in FY '77 to \$12.2 billion in the proposed FY '80 budget.

The increased education funding will continue to be targeted at programs which emphasize equal education opportunity, support for local schools, student assistance, basic skills, and the linkages between school and work.

School districts with high concentrations of low income children have extra costs in meeting their commitment to equal educational opportunity. Last year I proposed concentration grants which would give supplemental payments for compensatory education programs in high poverty school districts. This year I am requesting \$400 million to fully fund this proposal.

As is stated elsewhere in this Message, I will continue to work with the Congress to create a Cabinet-level Department of Education. Through such a Department, we can make certain that education receives the attention at the Federal level that it deserves.

HIGHER EDUCATION

Last year, I signed into law the Middle Income Student Assistance Act, which extends Federal student aid to middle income families facing rising college tuition costs. I propose to fully fund the Basic Grants program and to continue funding for the other college student aid programs. This year I will propose reauthorization of our omnibus higher education legislation -- the Higher Education Act and the National Defense Education Act. Through renewal of these acts, we can help enormously to ensure the continuation of strong higher education institutions and equal educational opportunities for all students.

Our Nation owes a debt of gratitude to the historically black colleges, which for far too long were the only source of college education for talented blacks. One-half of all college-educated blacks earned their

degrees at black colleges. I have vowed that black colleges will be in better shape when I leave office than they were when I came. I recently directed all Federal agencies to utilize more fully the resources at black colleges. And, in my FY '80 budget I have increased funding for Howard University, and asked for \$120 million to fully fund the Developing Institutions Program, which strengthens colleges with high concentrations of minority students.

SCIENCE AND TECHNOLOGY

When I came into office, I found Federal efforts to promote basic research and development lagging. My Administration has recognized that basic scientific research and development is an investment in the Nation's future, essential for all fields, from health, agriculture, and environment to energy, space, and defense. We are enhancing the search for the causes of disease; we are undertaking research to anticipate and prevent significant environmental hazards; we are increasing research in astronomy, and we will maintain our leadership in the scientific space; and we are pushing back the frontiers in basic research for energy, defense and other critical national needs. Despite the severe budgetary constraints this year, we are maintaining our effort to enhance Federal support for basic research with a request for a 13% increase in outlays for FY '80.

Even though Federal funding for basic research is being increased, I believe that the government's role in demonstration and commercialization pilot projects should be more selective and sectoral, with greater reliance upon private sector financing. We are enhancing our high technology approach to defense to counter the growth of Soviet forces. We have a broad energy research program with broad emphasis on long-term applications of solar, coal, geothermal, biomass and alternate nuclear technologies. But we will rely on industry to do its full part in the demonstration

of new technologies in energy and in other fields. Rather, than government funding of their research and development, companies need more favorable investment climates, better economic growth, better trade prospects, and sound policies about patents, antitrust, procurement, and environmental regulation.

Under the direction of the Department of Commerce, we are also engaged in a major Cabinet-level review of these aspects of technological innovation, with participation of numerous individuals from various industrial sectors.

Science and technology are playing an important part in our international relationships as well. Many countries, especially developing countries, look to America at least as much for our expertise and problem-solving abilities as for our dollars. I have proposed the establishment of a Foundation for International Technological Cooperation (FITC) to foster collaborative efforts with people and institutions in developing countries. These efforts will be directed to basic human needs in agriculture, nutrition, health, small-scale energy systems, and rural development.

Science and technology also have played a critical part in the dramatic advances of our relationship with the People's Republic of China. These scientific and technological relationships that will be built with China will be parallel to many such relationships we have established and enhanced over the years with other nations and groups of nations.

SPACE

Last year marked the 20th Anniversary of the National Aeronautics and Space Administration. The 21st year started superbly with the incredible success of the Pioneer missions to Venus. This year we hope to open a new era in space with the first launch of the Space Shuttle.

Under the national civil space policy I announced last fall, we will remain dedicated to ensuring U.S. scientific and technological leadership in space. To further that policy, my budget request for FY '80 includes funding to maintain the Shuttle development and production schedule to continue space science and exploration; to initiate efforts on selected areas of advanced satellite communications techniques; and to enhance remote sensing activities that will bring benefits in areas such as earth resources, climate, weather, pollution and agriculture.

COMMUNICATIONS

Last year we worked with Congress to reorganize communications policy-making in the Executive Branch and enact legislation to strengthen public broadcasting. In 1979 our priorities will include:

- o continued work with Congress on the important effort to revise the Communications Act to take account of technological changes;
- o vigorous pursuit of the program already underway to increase minority ownership of broadcast stations through regulatory actions, government loan guarantees, and private loan and training programs;
- o a program to use new communications technologies to improve rural life by delivering education, agricultural, and medical services and by increasing the diversity of radio and TV;
- o elimination of unnecessary regulations and paperwork requirements in cooperation with the Federal Communications Commission;
- o proposals on the role of the Postal Service in providing electronic mail services; and
- o participation at the World Administrative Radio Conference to ensure that increasing demands for radio frequencies are balanced in a reasonable and flexible manner.

SMALL BUSINESS

As a former businessman, I am especially sensitive to the importance of small business in our economy and to the vital role the Federal government can play in assisting small business.

Through a number of actions over the past two years, my Administration has worked to help small business flourish and remain competitive. Under the leadership of the Small Business Administration, we have increased tax incentives significantly for small business; significantly expanded small business loan opportunities; worked to increase small business exports; expanded opportunities for minority-owned small businesses; and initiated programs to increase small business opportunities for women. In addition, we have begun preparations for a White House Conference on Small Business in January of 1980 which include local and regional conferences throughout the country.

This year, while continuing efforts to prepare for the White House Conference, the Administration will pursue a program of enhancing small business opportunities. We will work closely with the Congress to develop legislation to improve the operation and effectiveness of the Small Business Administration.

CULTURAL AFFAIRS

Over the last decade, the National Endowments for the Arts and the Humanities have made enormous progress in developing projects and materials to enhance our Nation's cultural life. This year, the Endowments will continue their distinguished record of achievement -- a record which has benefited virtually every American. I am hopeful Congress will provide adequate funds for White House Conferences on the Arts and Humanities. This year we will also be strengthening the programs of the International Communications Agency, which present the diversity of American culture to the world and deepen our appreciation of other cultures.

PROTECTING BASIC RIGHTS AND LIBERTIES

Since taking office, I have worked to protect and enhance the basic rights and liberties provided to Americans under the Constitution and our other laws. With the cooperation of the Congress, we have made important progress in this area. Over the next year, though, a great deal remains to be done if our goal of ensuring equality and basic freedoms for all Americans is to be realized. The dream of equal opportunity remains unfulfilled. I will do everything in my power to bring that dream closer to realization.

CIVIL RIGHTSCIVIL RIGHTS AND EQUAL OPPORTUNITY

I take no obligation of my office more seriously than that of striving to secure full civil rights and equal opportunity for all Americans. In the quarter century since the Supreme Court's historic desegregation decision, our Nation's progress in these vital areas of human rights had been significant, but we have more to do. I am determined to use all of my authority to resist any efforts to weaken enforcement of any of our civil rights and equal opportunity laws. Recent actions by some in Congress to impair my Administration's efforts to enforce the law of the land will be forcefully opposed. These laws have made our society more equal than virtually any on earth, and attempts to weaken them cannot be tolerated or allowed to succeed.

My Administration has taken important steps to make civil rights enforcement more effective than in previous Administrations. The Justice Department has been diligent in its prosecution of civil rights violations. The Office of Federal Contract Compliance Programs (OFCCP) and the Equal Employment Opportunity Commission (EEOC) has been

reorganized and granted increased authority. The OFCCP will vigorously enforce the guidelines of Executive Order 11246, which prohibits employment discrimination by Federal contractors and requires affirmative action by these contractors. In addition the EEOC will continue this year to provide a central effective mechanism to enforce compliance with out equal opportunity laws.

As we have done in recent cases before the Supreme Court, my Administration will continue to support affirmative action programs to help bring minorities into the mainstream of American life, while opposing rigid and inflexible quotas which have no place in our laws.

Beyond existing laws, however, as I state elsewhere in this Message, we need to ratify two Amendments to the Constitution which will significantly clarify and enhance the liberties and rights of Americans: The Equal Rights Amendment and the District of Columbia Voting Rights Amendment.

The Equal Rights Amendment will provide women with equal legal status in our country. We cannot effectively champion human rights throughout the world until we have given to women the rights they are entitled to all citizens.

We must also work to ratify the amendment that will finally give the citizens of the District of Columbia the rights other Americans have to elect voting representation in Congress.

In addition, we need to correct a weakness in an existing civil rights law. Title VIII of the Civil Rights Act of 1968, which prohibits discrimination in housing, remains largely an empty promise because of the lack of an adequate enforcement mechanism.

I will soon propose to the Congress that this problem be alleviated by providing the Department of Housing and Urban Development with cease and desist powers. That

Department, which now investigates and makes findings upon individual complaints, would then be able to enjoin further discriminatory acts and to direct an appropriate remedy. My Administration will work with the Congress to see that this proposal is given prompt and favorable consideration.

WOMEN

One of the overriding concerns of my Administration is ensuring equal opportunity for women. Last year we worked closely with the Congress to extend the deadline for ratification of the Equal Rights Amendment until June 30, 1982. That extension will provide a greater opportunity to ensure ratification of this long-overdue Amendment. I will continue to dedicate myself, as well as the full resources of my Administration, to the ratification effort.

This is not a battle that we can afford to lose. I am determined to win. The opposition to the Amendment is not based on an understanding of its legal effect. The Amendment will do nothing more -- nor less -- than provide equality to more than one-half of America's population. I am confident that with the active support of the members of Congress from States which have not yet ratified, we can achieve ratification of ERA. I urge you to join the effort to provide women, at long last, with equal rights under the law.

My Administration has championed, and will continue to champion the right of women to choose their roles in society. To protect those who have chosen the role of full-time homemaker:

- o We have succeeded in enacting legislation that provides assistance for displaced homemakers and we supported the legislation that has now reduced from 20 to 10 years the marriage requirement for a former wife to claim against her husband's social security entitlement.

We are facilitating the choice of many women to combine family and work responsibilities. To accomplish this goal:

- o we supported the legislation passed to increase part-time and flexible-hour employment opportunities; and
- o we supported the Pregnancy Disability Act that outlaws employment discrimination based upon pregnancy, childbirth, or related conditions.

We are striving to improve women's professional opportunities within the Federal government. To this end:

- o women have been appointed in senior positions in the Administration, including two Cabinet officers. About 20% of my senior appointees have been women, and many of them are in areas in which no previous women had served; and
- o we have strengthened and increased our equal employment opportunity enforcement.

This year, in addition to continuing our efforts to ratify the Equal Rights Amendment, we will work closely with the Congress in efforts to enhance the economic standing of women -- particularly the poor, minority, and elderly -- by improving their access to housing, health care, and child care for those who choose to work. We will expand additional opportunities this year for women business owners and will create a permanent interagency group to review and help improve the position of women business owners. I will make every effort to select women to fill the 152 new Federal judgeships; their under-representation in the courts cannot be continued. Our country needs and deserves the full participation of women in our society, and I am committed to taking the steps needed to ensure this partnership.

DISTRICT OF COLUMBIA

My Administration worked with the 95th Congress to pass a proposed amendment to the Constitution granting full voting representation to the citizens of our Nation's Capital. The ratification process for this proposed amendment has begun and I urge the state legislatures which have not ratified the resolution to join with the States of New Jersey, Ohio and Michigan by promptly ratifying the amendment. My Administration will work this year in the effort to ratify this amendment.

My Administration will also work closely with the Congress and the new District Government under Mayor Marion Barry to expand home rule for the District. This includes streamlining the procedures for Congressional review of locally enacted legislation, removal of the Federal government from the District budgetary process by 1982, developing a rational formula for determining the Federal payment to the District, and an equitable Federal sharing of financial responsibility for funding of the District's pension plan for police, firemen, teachers and judges.

I will work with Mayor Barry to make our Nation's Capital city a model for the rest of the Nation to emulate.

NATIVE AMERICANS

The Federal government has a special responsibility to native Americans, and I intend to continue to exercise this responsibility fairly and sensitively. My Administration will continue to seek negotiated settlements to difficult conflicts over land, water, and other resources and will ensure that the trust relationship and self-determination principles continue to guide Indian policy. There are difficult conflicts which occasionally divide Indian and non-Indian citizens in this country. We will seek to exercise leadership to resolve these problems equitably and compassionately.

HANDICAPPED

For Americans with physical disabilities, this year will result in continued improvements in their accessibility to the things most of the rest of us take for granted -- education opportunities, employment opportunities, and greater access to public facilities and services. We will make further progress in removing obstacles that impede and discriminate against our disabled community. If our Nation is to remove the barriers of discrimination in our society, the Federal government must serve as a model in the successful removal of physical and psychological barriers thrown in the way of our Nation's disabled. The Section 504 Regulations issued by the Department of Health, Education, and Welfare provide a basis for the Federal government to lead the way in ensuring the rights of the handicapped.

UNDOCUMENTED ALIENS

One of the most difficult and sensitive domestic issues facing the country concerns the Federal government's policy toward undocumented aliens.

I continue to believe that effective but humane measures need to be devised which will help relieve the causes and effects of the presence of large numbers of undocumented aliens in this country. However, I will make no decision about what measures to pursue until completion of consultations with the government of Mexico during my visit there next month.

MARTIN LUTHER KING, JR.

Dr. Martin Luther King, Jr. led this Nation's effort to provide all its citizens with civil rights and equal opportunities. His commitment to human rights, peace and non-violence stand as a monument to his humanity and courage. As one of our Nation's most outstanding leaders, it is appropriate that his birthday be commemorated as a national holiday, and I will strongly support legislation to achieve this.

MINORITY BUSINESS

This year we will move vigorously to implement the strong minority business legislation enacted by Congress in 1978; meet my goal of tripling Federal procurement from minority businesses (to a total of \$3 billion); and improve the operation of the several programs designed to achieve equal entrepreneurial opportunity and vital minority economic development. We are currently evaluating the adequacy and organization of current minority business development programs, with the commitment to taking whatever action, legislative or administrative, is needed to ensure that their operation is efficient and effective.

CIVIL LIBERTIES

PRIVACY

Government and private institutions collect increasingly large amounts of personal data and use them to make many crucial decisions about individuals. Much of this information is needed to enforce laws, deliver benefits, provide credit, and conduct similar, important services. However, these interests must be balanced against the individual's right to privacy and against the harm that unfair uses of information can cause. Individuals should be able to know what information organizations collect and maintain about them; they should be able to correct inaccurate records; and there should be limits on the disclosure of particularly sensitive personal information.

My Administration is developing a comprehensive privacy policy to address these concerns. Last year, legislation was enacted which established restrictions on wiretapping for intelligence purposes and on government access to financial records. Early in 1979, I will propose privacy legislation to cover medical, financial, and other sensitive personal records. I will also take administrative actions to strengthen privacy controls for Federal agencies' records.

These measures will go far toward giving all American citizens the privacy protections they need in a modern society.

I recently announced my intention to submit legislation to Congress protecting the rights of the press, and others preparing materials for publication, from searches and seizures undertaken without judicial approval. Under the legislation I will propose, Federal, State and local law enforcement officials will generally be required to obtain a subpoena before conducting a search or seizure against those preparing materials for publication. Such legislation, which would deal with the problems created by the Supreme Court's decision in the Stanford Daily case, should serve as a solid protection of the rights of the news media and others under the Fourth Amendment.

LABOR LAW REFORM

The Nation's labor laws are vital to ensuring that a sound labor-management relationship exists in collective bargaining. Efforts to abuse those labor laws, especially by unduly slowing or blocking their implementation, have increased in recent years. As a result, a revision of our labor laws is required in order to guarantee that their intended spirit is fully observed and enforced.

I am again prepared to work with the Congress to develop legislation which improves the fairness and effectiveness of our labor laws. If the will of the majority in Congress is allowed to prevail, we can enact sound labor law legislation.

EXPORT ADMINISTRATION/ANTI-FOREIGN BOYCOTT

My Administration will work with the Congress to reauthorize the Export Administration Act, which plays a vital role in ensuring that exports are in our national interest. We will make particular efforts to reauthorize that part of the Act which prohibits American compliance with the foreign economic boycott of Israel. The anti-boycott amendments passed by the Congress were fair and equitable and must continue to be strenuously enforced.

INTELLIGENCE CHARTERS

I will be working closely with the Congress to develop and enact statutory charters for the Federal Bureau of Investigation and the Central Intelligence Agency. The charters, for the first time, will define in law the duties and responsibilities of the FBI and CIA and will set forth the authority of those agencies to fulfill those responsibilities. The disclosures of abuses in recent years make clear the need for charters, and my Administration is strongly committed to developing and passing charter legislation that protects our citizens' rights, while permitting our intelligence agencies to perform effectively their essential duties.

CRIMINAL CODE

The Federal criminal laws are often archaic, frequently contradictory and imprecise, and clearly in need of revision and codification. My Administration will continue to work with the Congress to develop a Federal criminal code which simplifies and clarifies our criminal laws -- as well as protects our basic civil liberties. The criminal code which passed the Congress in the last session can serve as a basis for progress this year.

HATCH ACT REFORM

We will continue to support efforts to reform the Hatch Act so that Federal employees in non-sensitive positions will have the right to participate in off-the-job political activities, though any on-the-job political abuse would be vigorously prevented.

HUNGER

We share a growing concern with other Nations and their people over the serious problem of world hunger. While our government and the governments of other Nations and international organizations are working to assure the basic right to food, the problems of hunger and malnutrition

are a daily fact of life for millions of people throughout the world. In order to make our own programs more effective and to examine additional efforts that might be undertaken, I have established the Presidential Commission on World Hunger, under the leadership of Ambassador Sol Linowitz, to recommend realistic solutions which we and other Nations might undertake in a prompt and efficient manner. The Commission will report to me this year and will then be involved in the implementation of its recommendations. The Administration will be working closely with Congress on the Commission's recommendation.

HOLOCAUST COMMISSION

Last year I established a Holocaust Commission to recommend to me how our government might officially recognize, for the first time, the tragedy of the Holocaust. The Commission's work is well underway, and I will receive its report this year. I expect to work together with Congress in developing a suitable memorial to the millions who died in the Holocaust.

PRESERVING AND DEVELOPING NATURAL RESOURCES

My highest legislation priority during the 95th Congress was enactment of our first national energy plan. The dedication of many members of Congress made that goal a reality. My Administration is committed to using that legislation as the foundation for further efforts to reduce our dependence on foreign oil and to increase our ability to develop domestic energy sources.

Our energy and other development goals can and will be reconciled with the Administration's resolve to clean the Nation's air and water and to preserve our most precious natural resources. We will continue to further the protection of our environment.

We will continue to develop our fertile agricultural land. The Administration is committed to helping our Nation's farmers continue to achieve record yields and exports.

ENERGY

The Administration remains committed to meeting our future energy needs. Building upon the framework of the National Energy Act, signed last November, we will be addressing key issues such as further developing and commercializing solar and renewable energy resources, making better use of our coal reserves and other abundant energy resources, continuing our emphasis on using energy more efficiently, and improving the manner in which we produce and use conventional sources of energy such as oil, natural gas, and uranium. To minimize the impacts of potential supply disruptions, we will continue the storage of oil in the Strategic Petroleum Reserve, and will be submitting for Congressional approval overall energy contingency plans.

While much remains to be done in the energy area, past investments in improving our energy supplies and our energy use are beginning to pay off: our industrial energy use has dropped while industrial production has increased. From 1975 to 1977 the growth in domestic energy consumption has been 70% of the growth in GNP. Previously, the two growth rates had been roughly equal. With significant improvements in automobile efficiency, gasoline consumption is an estimated 5% lower than it otherwise would have been. Use of heating oil, electricity, and other home energy source has become much more efficient. Oil consumption grew last year at a rate of only 1.5%.

On the supply side, the new natural gas legislation, whose provisions have just begun to take effect, will ensure new domestic production of this premium fuel. Furthermore, due to the addition of Alaska North Slope oil, our domestic production of oil has held steady over the last year, and foreign imports were down in 1978.

In 1979 and the FY '80 budget we are continuing strong investments in energy research and development. The FY 1980 budget provides outlays of \$3.7 billion for a wide range of programs to develop energy technologies for the future. Particular emphasis will be given to long-term solar energy research and development, to improvements in the mining and burning of coal, fission and fusion research, to improvements in existing technologies for conservation, oil and gas recovery, and uranium efficiency, and to energy-related research. These commitments to technologies for the future, both long and shorter term, are critical to a sound and comprehensive energy policy.

SOLAR ENERGY

Within the next few weeks, I will propose a major new initiative for solar energy. The transition to wide-spread use of solar and renewable resources can and must begin now. Solar, wind energy, and use of biomass resources can contribute significantly in both the short and long run to meeting our Nation's energy needs. Some of these technologies, such as solar heat and hot water, use of biomass for generation of electricity, and wind energy, are available now and are competing with other conventional energy sources. The tax credits in the National Energy Act, along with other commercialization incentives, will help accelerate the use of solar and other renewable technologies in the residential and industrial sectors of our economy.

The FY 1980 Budget increases our government-wide solar research and development programs by 40% over FY 1979. Total expenditures for solar energy will exceed \$800 million, including tax credits and important initiatives undertaken by the Department of Energy, the Agency for International Development, the Tennessee Valley Authority, the Department of Agriculture and the Small Business Administration. Application of solar technologies in federally-owned buildings will also increase, thereby providing new markets for our existing solar industry.

In our research and development program, strong emphasis will be given to photovoltaics through which electricity can be produced directly from solar energy. Conversion of organic materials to useable energy forms will also receive increased funding. Funds for the new Solar Energy Research Institute at Golden, Colorado, will also be increased.

The proposals I will later announce, coupled with the FY '80 budget, will chart a firm and ambitious course for acceleration of the use of the solar and renewable energy sources both now and in the future. The time for solar energy is now and today!

OTHER ENERGY RESEARCH, DEVELOPMENT, AND DEMONSTRATION

In the coming year, significant investments will be made in the demonstration of technologies which can convert coal to more useable and environmentally acceptable energy forms, continued strong research and development in fusion, development of geothermal energy sources, such as hot underground brines and hot rock resources, and efforts to resolve a range of environmental issues which these and other technologies raise.

NUCLEAR ENERGY

A wide range of administration initiatives, both legislative and administrative, will be proposed to ensure that this country can further use light water reactors for the generation of electricity. Of central importance will be the development and implementation of a strong, responsible program to manage and dispose of nuclear wastes. As a result of the work of the Interagency Review Group on Waste Management, I will be making a series of legislative and administrative recommendations to ensure that the necessary schedules, coordination, and legislative authorities are firmly in place. Public discussion and participation in the nuclear waste management area, along with the close cooperation with State and local elected officials, will receive continued high priority. Legislation will also be proposed to provide interim storage for spent fuel from existing reactors until a permanent waste repository is established.

Enactment of nuclear licensing and siting legislation to shorten the leadtimes required to plan, locate, construct and license nuclear power reactors will again be sought. Design and construction activities for the new centrifuge enrichment plant at Portsmouth, Ohio, will continue in order to ensure that the U.S. is able to meet the nuclear fuel needs of our domestic industry, as well as our international customers who share our non-proliferation objectives. These activities, coupled with the Administration's waste management program are designed to ensure that our country can continue to rely on current nuclear technologies to meet power needs.

Looking toward the future, we will seek to improve the efficiency of our existing power reactors by reducing their uranium feed requirements. For the longer run, the Administration will maintain and strengthen the strong research and development program we now have for more advanced nuclear fission technologies such as the fast breeder reactor. We continue to believe that the Clinch River Breeder reactor project is premature, technically inadequate, and should not go forward, but the Administration is committed to keeping the breeder option open for the future.

DOMESTIC CRUDE OIL PRICING

Provision of adequate incentives for both domestic production of crude oil and for conservation must be carefully weighed in light of our efforts to control inflation. In consultation with the Congress, I will be making my decisions and recommendations on domestic crude oil pricing and related issues later this year.

ENERGY IMPACT ASSISTANCE

As new domestic energy resources are developed, particularly in rural or isolated areas of the country, provision must be made for the needs of rapidly developing communities. The Administration will again seek enactment of legislation establishing an Inland Energy Assistance program, with funding of \$150 million per year, to aid those states and local areas which are experiencing a rapid growth in population as a result of new energy supply development. These communities often cannot plan for or meet increased need for new public facilities or services, since the population increases occur before the new energy supply activities are fully developed and producing local revenues. This legislation is essential to ensuring that the burdens associated solving our energy problems are borne equitably by all citizens and regions of the country.

MANAGEMENT OF FEDERAL ENERGY RESOURCES

The last two Congresses passed landmark legislation to reform the management of federally-owned coal, oil and gas resources. These new laws include Federal strip mine controls, and amendments to the Outer Continental Shelf Lands Act and the Mineral Leasing Act. With this new framework, the Administration is proceeding to implement swiftly new programs which will permit increased leasing and development activities while remaining sensitive to the needs for environmental protection.

WATER POLICY LEGISLATION

Water is a basic human necessity and its proper management is essential to economic activity, particularly in the arid West. The policies of my Administration emphasize the more efficient use of water as well as the need to provide adequate water supplies.

Last year I announced a comprehensive water policy which included many reforms now being implemented administratively. In addition, I will propose legislation to increase the role of the States in water policy, through increased water planning grants and through new grants for state water conservation programs. I will also propose legislation which would provide for states to share in the costs of Federal water projects. This cost sharing proposal will result in direct participation by states in setting water project priorities and will help insure that Federal programs are responsive to the most pressing water-related needs.

Congressional action is also needed on Administration Amendments to modernize the 1902 Reclamation Act to ensure that acreage limitations in federally-funded irrigation projects are equitable and fair.

ENVIRONMENT

My Administration is committed to balancing the needs for development, conservation and preservation of our natural resources. Our Nation has been blessed with an outstanding natural heritage which, if properly cared for, can meet our needs for food and fiber, mineral, energy, recreation, and solitude and do so in a way that is environmentally sound. The Congress and the Administration have worked together over the past two years to achieve this goal. We have enacted the first Federal standards for strip-mining coal; we have improved and extended the Clean Air and Clean Water Acts; we have created a substantial number of new National Parks and other protected areas. During 1979, protection of Alaska lands, implementation of water policy, resolution of wilderness and nonwilderness designations in the National Forest System and reformed management of Federal energy resources will be major environmental

initiatives of my Administration. Efforts to enforce and implement environmental statutes firmly and fairly, to streamline environmental review requirements, to protect public health and to preserve wildlife resources will continue to be pursued vigorously and as cost-effectively as possible, while still meeting our material needs.

ALASKA

As in the last Congress, passage of legislation designating National Parks, Wildlife Refuges, Wilderness Areas, National Forests and Wild and Scenic Rivers in Alaska is the highest environmental priority of my Administration. To protect these magnificent Alaskan wild lands, I took several actions after the adjournment of the 95th Congress, including the creation of 17 National Monuments covering 56 million acres. These areas, as well as other outstanding parts of Alaska covered in Administration proposals, should be protected promptly by legislation in order to assure that the great national treasures of wildlife, scenery, history and untouched ecosystems can be saved for our children and grandchildren, while permitting appropriate commercial use of certain of the areas.

ROADLESS AREA DESIGNATIONS (RARE II)

The Agriculture Department has nearly completed work on a study which will lead to proposals to resolve the status of most of the remaining roadless areas in the National Forest System. This study will lead to an Administration proposal for additional wilderness designations in many States and for release of remaining lands for nonwilderness activities. This initiative will also eliminate uncertainty over land uses in most parts of the National Forest System and will ensure that development uses will be adequately supported, while preserving critical parts of our natural heritage in an unspoiled condition.

ENVIRONMENTAL PROTECTION

In recent years, the quality of our environment has improved, although tasks still remain in cleaning up our air and water, and controlling contamination by toxic materials. The Environmental Protection Agency is focussing its efforts on the protection of public health by assessing the effects of substances before they are introduced into the environment, and by ensuring that hazardous wastes are disposed of safely.

At the same time, EPA, and the other health and safety agencies are exercising new care when implementing environmental regulations to avoid imposing unnecessary costs or red tape. A healthy, safe environment need not and should not be incompatible with a healthy economy.

The Nation's investment in environment cleanup must have the incentives and the flexibility to allow our most important environmental goals to be achieved at the lowest cost. Unnecessary requirements which cause delays and increase costs will be removed. EPA will simplify and consolidate its permit programs to reduce paperwork, red tape and delays.

The Agency is beginning to introduce innovations which allow firms the flexibility to find the lowest cost methods of controlling pollution. I will submit legislation to consolidate Federal funds for environmental programs at the State level, thus giving the States more flexibility to use these funds to deal with their most pressing environmental problems.

These and other changes we are making will assure the American public that the money we spend on environmental controls is the best investment we can make in our future and our children's future.

THE STATE OF FOOD AND AGRICULTURE

World food security has been substantially improved in 1978. For the third consecutive year, good-to-record crops were harvested in most parts of the world, pushing supplies to record quantities and creating the opportunity for people all over the world to improve their diets.

For the United States, 1978 was also a year of records. Large food and record feed grain crops were harvested by U.S. producers, re-emphasizing the U.S. farm sector's capability to lead the world in productivity. But despite the record crops which placed downward pressure on prices here and abroad, our farm economy became stronger in 1978 and our agricultural trade reached record levels.

The value of U.S. agricultural exports reached \$27.3 billion in fiscal 1978 -- 14 percent above 1977's record. The volume of our farm exports was a record 122 million metric tons -- up 19 percent from 1977. Agricultural trade made another record contribution to our balance of payments -- \$13.4 billion in fiscal 1978. Exports also accounted for one out of every four dollars the U.S. farmer earned.

Net farm income, which was \$20.6 billion in 1977, is estimated at over \$28 billion for 1978 -- second highest on record. In constant dollars, this was the best year since 1975. This was achieved while we met our domestic needs, fulfilled our commitments to our overseas customers and built reserves for future stability protection. This recovery in agriculture has been shared by crop and livestock producers alike. Indeed, American livestock producers can now look forward to several years of good returns to help them recover from the last four years which were marked by poor prices and forced liquidation of herds.

Part of the recovery in the farm sector can be attributed to the programs and policies adopted by my Administration and the Congress -- which farmers have used to improve their incomes and stabilize prices.

I am personally proud of the recovery our farmers have made.

INTERNATIONAL AGRICULTURAL TRADE

Over the past 2 years, this Administration has worked to reduce barriers to international trade and to develop new markets and encourage increased exports of agricultural products. The Agricultural Trade Act of 1978, for example, provides important new authorities for intermediate credit and the establishment of trade offices in major markets. We have moved to establish new and stronger trade ties with several nations, including Japan and the People's Republic of China. Partly as a result of these efforts, exports of U.S. farm produced goods are expected to reach a record \$29 billion in fiscal 1979 -- 21 percent higher than 2 years ago -- and contribute \$15 billion to our balance of payments.

Unlike previous Multilateral Trade Negotiations, in this MTN we have placed heavy emphasis on the lessening of restrictions on trade in agricultural products. Our efforts here should have a major impact on U.S. agriculture in the future, by broadening our access to important existing and new international markets.

CROP INSURANCE

The Federal government now operates several programs for the purpose of protecting farmers from economic losses associated with crop failure. The experience of recent years with these programs has demonstrated their many serious shortcomings -- in the breadth of coverage, the equity of program benefits, and the efficiency of program administration.

We intend to propose again a comprehensive, nationwide all-risk insurance reform bill to the 96th Congress aimed at providing fairer and more effective protection for farmers, and at no additional cost to the taxpayer. Under this proposal, several existing disaster assistance programs would be consolidated into one comprehensive, share-the-cost program to ensure against economic losses resulting from natural disaster and other uncontrollable risks.

INTERNATIONAL EMERGENCY WHEAT RESERVE

The cornerstone of our domestic food and agricultural policy is the farmer-owned grain reserve. In little more than a year, we have built this into a 1.2 billion bushel grain reserve -- the equivalent of more than a third of our carry-over stocks from the past year. These stocks remain under the ownership of those farmers who produced them rather than in the hands of government or international grain traders. This reserve provides a critical cushion against shocks in the market caused by production shortfalls either here or abroad.

We now need to establish the same sort of protection for our international food aid programs. Accordingly, the Administration will reintroduce legislation to authorize the establishment and management of an international emergency wheat reserve. This reserve will provide developing countries assurance that we will be able to fulfill our food aid commitments. At the same time, it will protect the domestic economy from further inflationary pressures during periods of grain shortages.

SUGAR

In the absence of Congressional passage of a domestic sugar program in the last session, the Administration has taken several further steps to assure domestic producers of a fair return and consumers an assured supply at stable

prices. To underscore Administration commitment to achieving ratification of the International Sugar Agreement, I directed that sugar imports from countries not party to the agreement be strictly limited to the levels permitted under the agreement for 1979. We have also asked for and received an extension of the deadline for ratifying the ISA to June 30, 1979. In addition, at the end of last year, I issued a proclamation that provides for a new, more flexible system of sugar import fees protecting a domestic raw sugar price of 15 cents per pound.

To help stabilize world sugar prices, to satisfy our international commitments, and to protect our domestic sugar producers, my Administration is committed to working with the Congress to develop an effective, non-inflationary domestic sugar program early in this session, and to achieve ratification of the International Sugar Agreement.

RURAL DEVELOPMENT

Throughout 1978 my Administration took steps to make existing Federal rural development programs work better. For many rural areas, and for most rural residents, the 1970's have been a period of rapid growth and development. Income levels have risen and large numbers of better jobs have been created in rural communities across the Nation. Rates of population and employment growth for rural areas have been substantially greater than for urban areas -- causing problems of unplanned rapid growth in some areas but also reversing decades of rural out-migration and economic stagnation. Nevertheless, rural Americans still experience a disproportionate concentration of pressing human problems:

- o two-thirds of all homes lacking complete plumbing are in rural areas;

- o rural infant mortality rates are 10 percent higher than urban ones;
- o 70 percent of the rural poor and half of the rural elderly have no automobile, causing great hardship because of the distances to travel to get access to basic health care, jobs, and other social services;
- o while only a quarter of all Americans live in rural areas, 40 percent of the Nation's poor live there.

For too long the small town mayor, the rural county official and the individual rural American have been frustrated by a maze of Federal grant applications, requirements, eligibility standards, audits and deadlines which have made it virtually impossible to address these rural problems effectively.

For too many years, money and time has been wasted. We are moving to address this chronic problem. In the last year, White House Rural Development initiatives have resulted in:

- o a commitment to build 300 rural primary health clinics to serve 1.3 million Americans who lacked access to care;
- o major streamlining of the rural water and sewer grant process through which five agencies distribute \$2.5 billion in Federal funds each year. The new process permits a single application, single audit, single funding source and single point of Federal contact -- at a savings to local government of several hundred million dollars each year along with a reduction in processing time of as much as 15 months; and

- o specially targeted rural job training programs for rural disadvantaged in the water and sewer and health support fields.

This effort to address rural problems will continue and be expanded in 1979, addressing the problems of rural transportation, housing, and economic development among others. In addition, during the year I plan to articulate a set of overall rural development principles and goals which will guide the actions of my Administration. These principles will provide focus, direction and priority to the myriad of now separate Federal actions and policies, so that we can more effectively work to:

- o overcome the problems of rural isolation;
- o promote economic development;
- o meet basic human needs;
- o protect the quality of rural life;
- o assure equity in the administration of Federal programs for which rural Americans are eligible; and
- o build a more effective partnership among Federal, State and local governments and the private sector in meeting locally defined rural development priorities.

Furthermore, several other Administration initiatives will have an impact on the conditions in rural America. We will make certain that the rural perspective is considered as initiatives are developed in such areas as welfare reform and national health plans.

FOREIGN POLICY PROGRAMTHE CONTINUING CHALLENGES OF CHANGE

When I took office two years ago this month, I was convinced that America had to pursue a changed course in a world which was itself undergoing vast change.

In the midst of this accelerating change, America's choice lies between facing chaos or building with other towards a true world community. Our foreign policy accepts the latter responsibility both because of our basic belief, and because of America's critical role in the world.

To this end, we must have four broad objectives:

- o to buttress American power on which global security and stability depend;
- o to strengthen our relations with other nations throughout the world in order to widen the spirit of international cooperation;
- o to deal constructively with pressing world problems which otherwise will disrupt and even destroy the world community we seek;
- o to assert our traditional commitment to human rights, rejoining a rising tide of belief in the dignity of the individual.

Progress towards these goals depends first on our ability as a Nation to work together in the common interest. During the coming year, the Congress, the Executive, and the public will be addressing an unusually wide range of international issues. The action taken will have an impact on our Nation's position in the world for many years to come -- in establishing a secure nuclear balance, in developing closer relations with the world's most populous

Nation; in achieving an historic step towards peace in the Middle East; or in setting the pattern of trade relations during the next decade and beyond.

This report elaborates on my address to the Congress and, in particular, concentrates on the issues in which the role of the Congress will be most important to realizing our national goals. In each case, the challenge is clear: to exercise strong American leadership with others to shape change rather than permit change to shape us.

AMERICA'S MILITARY STRENGTH

Elsewhere in this report I have described the domestic programs and policies required for a just, united and productive America. The maintenance of American military strength is essential to a successful foreign policy that safeguards our freedom, our accomplishments and our friendships. In a world of accelerating change, fraught with potential danger and uncertainty, and marked by a continuing Soviet military buildup, we must have, together with our allies, unsurpassed military capability to deter attack or attempts at political coercion. Moreover, we must have the military force to mount an effective defense at any level of hostilities where our vital interests are jeopardized.

The defense budget which I have presented to the Congress funds a program of prudent investments that will ensure the effectiveness of our strategic and conventional military posture. It will:

- o begin full-scale development of a new, more survivable ballistic missile system to enhance the ICBM component of our strategic triad;

- o maintain the Trident submarine and missile programs, increasing the security, striking power and the range of our submarine force;
- o extend the effectiveness of our bomber force with the addition of air-launched cruise missiles;
- o pursue a vigorous program of research and development in cruise missiles, aircraft and other systems to ensure the continued technological superiority of America's nuclear deterrent.

In addition, the defense budget I have submitted this week will strengthen our conventional capabilities to fulfill our commitments to our major allies and friends and retain a credible military presence in both the Atlantic and the Pacific. We will continue to add armor and firepower to our infantry and build a more modern, smaller aircraft carrier which, together with more frigates and destroyers, will improve the effectiveness and flexibility of our surface fleet.

In NATO, we have already achieved important progress toward making the Alliance more effective in the changing security environment.

- o We helped launch the Alliance's Long-Term Defense Program to offset growing Soviet modernization of its deployments in Europe. The LTDP will increase NATO military capabilities through better coordination of defense efforts, increased investment, and more modern equipment.
- o We removed, with the support of Congress, a serious obstacle to strengthening Turkey's defensive capabilities and made further progress toward the reintegration of Greek armed forces into NATO's military structure; both these efforts helped repair a serious deficiency on NATO's southern flank.

- o We neared final agreement with the Portuguese on the renewal of our base rights in the Azores.

The provision of adequate military as well as economic assistance to Turkey, Portugal and other allies and friends in need will be a matter of high priority during the coming year.

NATO's strength is growing. In 1979, we can further that encouraging process by standardizing more of the Alliance's equipment and improving Allied readiness. The proposal I will soon put before the 96th Congress calls for the authorization of intergovernmental agreements to simplify logistical problems both in peacetime and during any period of hostilities. Such agreements will permit the U.S. to reinforce NATO more rapidly and provide more effective defense at lower cost.

We also intend to maintain a vigorous American military presence in the Pacific. Successful completion of a revised military base agreement in the Philippines, following ten years of negotiations, provides an essential underpinning for our military capability in Asia.

Congressional authorization for the transfer of military equipment to the Republic of Korea was another contribution to assuring the security of Korea and Japan. Both actions unmistakably signal not only our desire to promote East Asian stability but our intention to remain a concerned, involved and responsible power in the Pacific.

The essential task of improving our military posture must also be accompanied by increased efficiency. I take this opportunity to thank the Congress for its support last year of our actions to reduce waste and needless duplication in our defense budget. Vigorous cost-saving efforts will continue this year in order to assure that the United States will possess strong military forces at the lowest possible cost.

BUILDING THE COMMUNITY OF NATIONS

Military strength is essential to peace but cannot alone guarantee it. The system of cooperation we have with the rest of the world is a fundamental component of our own security. Our best hope for a safer America and a peaceful world resides in the building of closer ties with as many nations as possible.

THE MAJOR ALLIES

Throughout 1978, the North Atlantic Alliance and the growing partnership which links us with both Western Europe and Japan remained at the heart of our foreign policy. The cooperation we share with those whose purposes and traditions are closest to our own is strong and growing stronger.

Through our summit meetings, and through an unprecedented pattern of consultations at other levels of our governments, we are working together on virtually all of today's most critical issues.

- o together we are seeking to reduce the risk of nuclear confrontation;
- o we are working on ways to strengthen the common defense;
- o we are attempting to promote a peaceful transition in southern Africa;
- o we are striving to resolve conflicts in the Eastern Mediterranean to support a just and lasting peace in the Middle East and to maintain stability in the Persian Gulf;
- o we are contributing to a sounder international economy;

- o we are consulting on the issues that confront all our societies: the problems of youth and age, family and community, growth and conservation -- in short, advancing our democratic ideals at home in a time of change in each of our countries.

America's role as host for the NATO summit meeting in Washington last spring, and our attendance at the seven-nation economic summit in Bonn last summer, symbolized American commitment to the strength of relations with Europe and Japan. I look forward to meeting these and other allied leaders at the Tokyo Summit next June, where we will continue the essential effort to deepen further the cooperation between us.

A WIDER COMMUNITY

The changing realities of political and economic interdependence require that we strengthen our ties throughout the developing world and seek to improve relations with Communist nations as well.

My trips to Nigeria, India, Saudi Arabia, Iran, Brazil, and Venezuela underlined American sympathy and support for the international roles these countries are playing in the process of world change. Strengthened consultations with the ASEAN nations serve the same end.

My trip to Mexico early next month will be a part of this process; Mexico is important to us not only because it is a neighbor but also because it is one of the most vigorous democracies in this Hemisphere and a leader in the developing world. As neighbors, we share an agenda of common concerns -- trade, migration, economic growth and social development -- that provides an opportunity to establish a uniquely productive, cooperative relationship.

My trip to Poland and the visits of Secretary Vance and Secretary Blumenthal to Hungary and Romania underscore the importance we attach to better relations with the nations of Eastern Europe. The support of the Congress for our policy toward Eastern Europe has provided a strong foundation for building a stronger economic, cultural and political relationship -- a process that will continue to go forward in the coming year.

CHINA

The arrival next week of the first leader of the People's Republic of China to officially visit Washington will give us an early and welcome opportunity in the new year not only to cement the ties of friendship and hospitality between us but to emphasize our expectation that our relationship with China will be a constructive one. It will contribute to diversity in the world and to peace and stability in Asia. It is not directed against the interests of any other country.

To fulfill the promise of this new era in Sino-American relations, we will require legislation and support from the Congress. Such legislation is particularly important to facilitate continued trade and other relations with the people of Taiwan through non-governmental instrumentalities and to assure continued peace and prosperity there. This has very high priority in our legislative program for 1979.

USSR

We seek better relations with both the Soviet Union and the People's Republic of China. Doing so is profoundly in the interests of our Nation and of global security.

I therefore would like also to welcome President Brezhnev to our country in the near future. At that time we would hope to conclude an agreement curbing the strategic arms race. There are other areas where our two nations can work

constructively together. These include a comprehensive nuclear test ban treaty; limits on Indian Ocean deployments, and on the transfer of conventional arms; and restraint in areas of turbulence and tension. Such cooperative effort would do much to make the world a safer place for all.

We will never ignore Soviet actions which challenge our interests. We both have a responsibility to our peoples and the world to maintain a pattern of detente which is genuinely reciprocal and broadly defined.

DEALING WITH WORLD PROBLEMS

A true world community cannot be fashioned or endure so long as the weapons of war multiply and spread, so long as ancient disputes fester and the demands for justice are unmet, so long as much of mankind remains impoverished and without hope.

As I emphasized in my State of the Union address, the need to curb the strategic arms race has never been more urgent. It increases the risk of nuclear war. It is a needless competition that draws away scarce resources we need to invest in other areas of our Nation's strength. It undermines America's security.

The conclusion and ratification of a satisfactory SALT II Treaty with the Soviet Union is therefore among our top priorities. It will make a major contribution to enhancing our long-term security, while keeping open our options to carry out needed modernization of our strategic forces and preserve our deterrence.

We will take whatever time is necessary to negotiate a sound, verifiable agreement. I am convinced that once the American people and Congress have had a chance to examine the terms and benefits of this Treaty -- and consider the shape of our future without it -- they will conclude it serves our vital security interests.

We will continue to consult the Congress as we proceed this year with other important arms control negotiations: on a comprehensive nuclear test ban; the prevention of anti-satellite warfare; mutual and balanced force reductions in Europe; and limits on the rising tide of conventional arms transfers.

The risks inherent in the proliferation of nuclear technology figure prominently among the dangers to the world community. Although we and the rest of the world still have far to go in dealing responsibly with such risks, the United States took an important step last March with the adoption of the Nuclear Non-Proliferation Act. For the first time in our history we established comprehensive legislation covering international cooperation in the nuclear field and the export of nuclear-related materials. To build on that promising beginning throughout 1979, we need progress in the following areas, both nuclear and non-nuclear:

- o The International Nuclear Fuel Cycle Evaluation (INFCE), a 53-nation effort, can help us develop a new international nuclear fuel consensus that will adequately balance energy needs with non-proliferation concerns. We continue to believe that better alternatives exist to the commercialization of dangerous breeder reactors and we will cooperate as fully as possible with other countries in exploring those alternatives.
- o We will seek more substantial progress in the problem of managing nuclear waste and in attracting greater international support for the acceptance of nuclear safeguards. I ask the Senate to ratify the treaty on the IAEA Voluntary

Safeguards Offer which will provide concrete proof of our belief that international safeguards do not interfere with the successful development and operation of commercial nuclear power.

- o I will call for early Senate ratification of Protocol I of the Treaty of Tlatelolco, which will contribute to the lessening of nuclear dangers for our Latin American neighbors; the U.S. and Cuba are now the only countries in our Hemisphere which have not yet ratified that Treaty.

REGIONAL CONFLICT AND TENSION

Curbing the means of war cannot in itself remove the threat of war. For that, we must seek to resolve conflicts, ease tension and build trust. The urgency of this task and its importance to the United States and the world is nowhere more clear than in the Middle East. Though there has been great progress, the goal of a just and lasting settlement in that troubled part of the world still eludes us. No one who has looked at Middle East history can harbor any illusion about the difficulties ahead. Yet we have made great strides toward a final peace agreement between the two principal adversaries in the Middle East. The differences which they have overcome far outweigh the issues which still divide them. Israeli and Egyptian commitment to peace will provide an indispensable step toward peace between Israel and all its neighbors and foster the stability and orderly change we favor for the entire Middle East region. Peace will permit us to strengthen our ties with the Arab states in the region and enhance our relationship with Israel, a relationship which will always be special to us.

In 1979 I will count on the continued collaboration of the 96th Congress on behalf of our efforts to gain and maintain peace throughout the region. The support of the Congress and the American people for a purposeful role in that region is particularly important in light of the tumultuous events taking place in Iran. Since the end of the Second World War, the United States has maintained a close relationship with Iran and it has a vital interest in Iran's independence and integrity. The people of Iran should shape their own future without foreign interference. That is the policy of the government of the United States and we expect it to be the policy of all of Iran's neighbors.

AFRICA

Congressional support for peace, stability, and orderly change are essential in other tense regions, as well.

In Southern Africa we are trying to help bring about a peaceful transformation to majority rule which will avoid growing bloodshed between white and black and deeper intervention by the Soviet Union and Cuba.

Together with our European allies, Canada, and African states directly concerned, we are making progress toward the independence and majority rule of Namibia -- a step that would have a positive impact on the evolution of events in Rhodesia and elsewhere in Southern Africa. We are heartened by the support of the African leaders who have worked with us in efforts to resolve the Namibian and Rhodesian issues.

Congressional repeal of the Byrd Amendment was essential in enhancing our credibility in the effort to avoid a gathering war and further Soviet and Cuban gains

in Southern Africa. We will consult closely with the Congress during the coming months, as we seek the most constructive role we can play. It will be increasingly important to maintain our position of impartiality among the parties so we can help them resolve their differences should they choose the path of peace.

LATIN AMERICA

In our own Hemisphere, we can point with pride to the cooperative spirit which enabled us to change, in mutually beneficial ways, the basis of our relations with Panama. Senate approval of the two Panama Canal treaties last year has improved the quality of our historic relationship not only with Panama itself but with our friends in every part of Latin America. By that act, our country helped demonstrate its ability both to protect major security interests and to deal with smaller nations with dignity and mutual respect. Congressional action to pass the necessary implementing legislation for these treaties before the October 1 deadline will ensure that the Canal is efficiently operated during the transition to a new partnership with Panama.

The treaties and implementing legislation, like our efforts to help the people of Nicaragua find an enduring democratic solution to the current crisis there, are important to the future stability of Central America as a whole and the strengthening of our new and mature relationship with the nations of all Latin America.

THE INTERNATIONAL ECONOMY

In our daily lives, we are constantly reminded of the importance of a healthy world economy to the strength of our own. We see this in the wages of our workers who produce goods for export, in the choice of goods for our consumers, in the price of energy.

We must work closely with other countries to ensure that the world economy can steadily develop through non-inflationary growth, while together we manage the use of its resources and protect our environment.

The focus for much of this effort during the past year was the Bonn Economic Summit. We worked out a strategy of cooperation with our partners to improve the world economic situation: within the framework of those Summit decisions, West Germany and Japan have taken measures to stimulate their economies while we are giving top priority to fighting inflation. Our actions, along with those taken by other Summit participants, are leading to a convergence of economic policies that will strengthen the global economy.

We have strengthened the dollar by working out arrangements with other countries to counter speculative disorder in currency markets. Since I announced my dollar stabilization measures last November, we stopped the dollar's decline in value against other currencies and have actually increased the dollar's value by around 10 percent against several major currencies. Moreover, we have announced a multi-faceted program to increase U.S. exports, which will benefit American farmers and workers, while further strengthening the position of the dollar.

We are now close to new agreements with our trading partners to establish a fairer, better operating and more open framework for world trade.

The American people have a vital stake in Congressional approval of these agreements. Ten million American jobs depend on our exports. Every third acre of our farmland produces for sales abroad. Two-thirds of our imports are essential raw materials or goods we cannot readily produce.

At a time of difficult strains in our own economy, there is always an impulse to abandon our commitment to an open world trading system. But the costs of such a course to the American people would be enormous. Each American family would pay more for what it buys and would have less choice in the goods available. Inflation would be fueled. Jobs would be jeopardized, for protectionism against our trading partners breeds protectionism by them against us.

I am convinced that our economy can adapt to changing patterns of world trade in ways that protect the future of our workers. We can compete effectively in the world economy. The new trade agreements give us the opportunity to do so.

Our programs of economic development assistance abroad are also an investment in our own future as well as the future of other nations. Our most rapidly growing markets lie in the developing world. By helping the people of these countries, we not only help extend their opportunities for a better life, we help ourselves. By demonstrating to their governments that we are concerned for the well-being of their people, we encourage their increasing cooperation with the West on a broad range of issues.

I therefore urge Congressional approval of the funding we propose for our bilateral assistance programs and our participation in the work of the multilateral development banks and UN agencies.

My proposal to establish a Foundation of International Technological Cooperation reflects our recognition that scientists in many developing nations are ready to work in collaboration with our technological institutions to solve the great problems of health, nutrition, productivity and other aspects of economic development.

Key commodity agreements can also help us deal with the legitimate needs and interests of the developing countries. Senate ratification of the International Sugar Agreement, which we signed last year, along with price support legislation will stabilize prices for that important commodity. We have pledged a contribution to the International Tin Agreement, and we will conduct negotiations on a rubber accord.

Efforts to build a stronger international economy are directed not simply at managing economic relationships among nations, but at improving the lives of individual people around the world. For it is the lives of individuals which define the success or failure of our foreign policies.

REASSERTING AMERICA'S VALUES

America's future is best secured in a world community of decency, justice and compassion.

The effort to make human rights a central component of our foreign policy comes from our deepest sense of ourselves as a humane and freedom-loving people. We do not make our standards the precondition for every relationship we have with other countries; yet human rights can never be far from the focus of our thinking or we violate our own best values.

In the year just passed, some have quarrelled with the timing or the tactics of our emphasis on human rights abroad. Others have pointed to our own imperfect record on human rights at home. Yet few can dispute an important fact of this experience: our concern for human rights has met with great resonance in the world at large. The very term has entered the language and become imbued with an everyday familiarity that was simply unknown little more than two years ago.

We believe our efforts have contributed to a global awakening:

- o thousands of political prisoners have been freed;
- o in several countries, torture of prisoners has been significantly reduced or eliminated and trials are more often open to the public;
- o open advocacy of human rights has occurred in nations where the concept was heretofore forbidden;
- o international organizations such as the UN and the OAS now have vigorous human rights commissions for the investigation and airing of human rights violations and the Commission on Security and Cooperation in Europe has helped to make human rights an institutionalized part of the international agenda on both sides of the Atlantic;
- o in a number of key nations around the world, democratic institutions are being strengthened as democratic values are reasserted.

Americans can be proud of the leading role their government has played in advancing this process. I now ask the Congress to take action in 1979 which will further strengthen our human rights record. I have signed four important human rights treaties, including the Convention on Racial Discrimination, the International UN Covenants on Economic and Social Rights, and on Political and Civil Rights, and the Inter-American Convention on Human Rights. Senate ratification of these treaties will firmly align our Nation with the growing forces for rule of law and human dignity in this world. Similarly, I call upon the Senate finally to ratify the Genocide Convention. The United States is one of the very few countries which have not yet ratified this convention; this anomaly should be corrected at the earliest possible moment in this Congress.

I am also proud of the efforts we have undertaken this past year to alleviate the plight of refugees from the far corners of the world, particularly those fleeing the troubled Indochinese peninsula. We have done a great deal to reduce suffering among these desperate people and to provide many of them with a possibility of a new home and a new start.

We will continue to do our part and to encourage others to increase their financial assistance and opportunities for resettlement. I hope to cooperate closely with this Congress in the passage of new legislation which will allow us to focus U.S. assistance more efficiently in working toward the solution of this global, human problem.

Our challenges reflect a single fact: the pressure of accelerating change in our century. We need not fear this phenomenon; indeed, we should welcome it. Change has not been merely a challenge in American history; to a very real degree, it has been our Nation's charter. We have not prospered and grown for more than two hundred years by worshipping the status quo. In building our Nation and confronting the many tasks which history has assigned us, we have found change to be our natural element.

We should approach a world of change with the confidence of a Nation whose strengths are unmatched. Our military forces are strong and growing stronger. Our technological and industrial capacities are unsurpassed. Our allies are strong and reliable. Our way of life, and what we stand for as a Nation, continue to have magnetic international appeal.

I do not pretend that change comes without cost. I do not pretend that it comes without pain. Neither the visionary men of the 18th Century who founded our Republic, nor the citizens of conscience who opposed slavery in the 19th, nor the men and women of the 20th who led us successfully through two world wars looked upon change as easy. They did, however, look upon it as inevitable.

So it was in the beginning of our country, so it has been through all the stages of our history. The future has always brought Americans to a higher level of national achievement as long as we were willing to invest the time and the energy and the imagination toward shaping that future ourselves.

As we begin a new year, I repledge my Administration to that time, that energy, and that imagination. Together, America's Congress, its people, and its President cannot only master the many challenges of change, but make them a part of our Nation's purpose in the world. In so doing, we can bring America closer to that "more perfect union" of Jefferson's dream in a wider and more secure global community congenial to our values, interests and ideals.

6625

THE WHITE HOUSE
WASHINGTON

1/24/79

Zbig Brzezinski

The attached was returned in the
President's outbox today and is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Jim McIntyre

SECRET ATTACHMENT

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Per: Rac Project

ESD

126-16-13-1-9

BY KS NADA DATE 6/28/13



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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MEMORANDUM FOR: THE PRESIDENT

FROM: James T. McIntyre, Jr. *Jim*
Director

SUBJECT: Request for New Authorization to Negotiate
a Renewal of the Azores Base Agreement and
for Additional Grant Military Assistance
for Portugal

*3619 - Assess - Discuss your
alternate proposal &
Jim - We want/need
to phase out
JAN 24 1979 Grant MAP
State should not make or
imply commitments
without prior
agreement to OMB
or approval
by me
J*

In April, 1977, you approved an offer to Portugal of \$120 million divided equally between grant military assistance (MAP) and economic supporting assistance (SSA) in return for extension of the Azores Base Agreement for up to ten years from 1974 when the current agreement expired. Dr. Brzezinski and Secretary Vance now request (Tabs A and B) authority to increase the SSA component of the quid to \$80 million, raising the total to \$140 million, in return for a nine-year renewal (1974-83). They also want to increase grant MAP in 1980 by \$21 million over the \$30 million you recently approved.

OMB supports the increase in the SSA component of the quid to \$80 million both because it will directly benefit the economy of the Azores (and therefore facilitate the base negotiations) and because the funds can be reprogrammed from other planned SSA for Portugal (\$50 million in 1980) and will not increase the budget totals.

On the other hand, OMB opposes the additional \$21 million in MAP for a number of reasons.

Additional Military Assistance (MAP)

You approved \$30 million in 1980 MAP as the first half of the \$60 million in MAP which had been offered the Portuguese earlier in the Azores base context. State and NSC are now arguing that this base "quid" has to be above and beyond the "regular" ongoing program. I find this concept of a "regular" and a "quid" component illogical and inconsistent with our other base negotiations (most recently Philippines and Turkey).

Despite earlier warnings by OMB not to pursue this approach, State Department officials have apparently led the Portuguese to believe that the MAP component would be in addition to the "regular" program.

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BY 145 NARA DATE 6/28/13

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Thus, they believe that failure to provide the additional MAP could frustrate our efforts to negotiate the Azores base agreement and undermine our efforts to get more allied aid for Portugal's armed forces.

I recognize these very real concerns, but believe a high profile \$21 million budget amendment for Portugal at this time is not warranted.

- ° The 1978 and 1979 budgets also included substantial MAP for Portugal even though no agreement had been reached on renewal of the Azores agreement. These annual increments of MAP have, therefore, served both as an implicit quid for continued access to Lajes pending formal renewal of the agreement and as an expression of our larger interests in Portugal as a NATO ally.
- ° When State presented the original \$120 million quid offer, they noted that "the Portuguese understand (the \$57 million MAP provided in 1977-78) is already part of the context in which formal negotiation will finally take place." The idea of an additional "regular" program surfaced only last summer.
- ° Despite OMB efforts to clarify whether a "regular" program was also contemplated, State's position remained ambiguous through the entire budget process, including the appeal when Warren Christopher did not raise the issue. In these circumstances, I feel State and our military and diplomatic representatives abroad have exceeded their authority in raising expectations that the Lajes quid would be additional to a regular MAP program of about \$20 million.
- ° I am unaware of any precedent for considering a military aid program offered as a quid for military bases as entirely separate from a regular annual program level. In the recent example of the Philippines base agreement, the \$50 million MAP component of the quid included the \$15 million already planned in both 1980 and 1981.
- ° There is a legitimate reason for considering the SSA component of the quid separately, because it directly benefits the Azores. All the MAP aid, however, goes to Portugal's armed forces. The distinction that part of the MAP is for quid and part to signal our political support for the military and NATO objective is arbitrary.
- ° As for the argument that we must do more to encourage the allies, on the contrary, to do more may only encourage the present tendency to expect the U.S. to carry an undue share of the burden of shoring up Portugal's military. Despite strong statements of good intentions, to date, only West Germany has made a significant contribution and that has been limited to 18 refurbished M48A5 tanks, 22 obsolescent G-91 ground attack aircraft (\$26.5M), and an offer of wheeled vehicles (\$17.5M).

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- 1981 MAP. While State now requests the additional MAP for 1980, Secretary Vance's memorandum is silent on whether or not State will want also to continue the separate "regular" program in 1981. We are informed that State does not know whether it will want more MAP in 1981 but does not wish to foreclose the possibility of requesting more. I believe this kind of ambiguity in regard to future assistance levels is undesirable, especially in the context of base negotiations. Accordingly, I recommend you establish now the total MAP levels for Portugal for 1981 as well as 1980.
- Planned FMS Credit. Secretary Vance's memorandum does not recognize that current OMB planning levels include \$30 million FMS credit each in 1982 and 1983. This \$60 million in FMS credits, together with an estimated \$30 million of the \$60 million of 1980-81 MAP not required for modernizing the NATO brigade, will be available to assist Portugal in the next phase modernization of its air force. While State argues that to use FMS credit as a substitute for grant MAP would contradict U.S. and IMF economic policies, you should be aware that we can provide FMS credit on terms equally as concessional as the balance-of-payments loans we have been providing to assist Portugal to overcome its economic difficulties.

I am not able to judge the potential political consequences of denying the additional MAP but I believe that State can convince the Portuguese Government that an estimated \$218 million of grant MAP (\$143 million), FMS credit (\$60 million), and grant military training (\$15 million IMET) over the 1977-83 period is an adequate demonstration of U.S. support during a period of severe budget stringency. Warren Christopher was quite persuasive with this argument recently with the Turks. Although the Portuguese have been led by State to expect highly optimistic levels of aid, I believe they too understand our constraints.

Recommendation

Because of the undesirability of a budget amendment at this time, I recommend against the additional \$21 million MAP (there are no good options for reprogramming MAP from other countries). If you believe that additional MAP is required to facilitate the successful conclusion of the negotiations, I recommend that it be added only in 1981, in order to avoid the need for an amendment.

Approve no additional MAP (OMB recommendation). _____

Approve additional MAP only for 1981. _____

Approve a \$21 million MAP budget amendment for 1980 with flexibility to add it in 1981 also (State, NSC recommendation). _____

my preference

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Attachments

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THE SECRETARY OF STATE
WASHINGTON

~~CONFIDENTIAL~~

(with ~~SECRET~~/EXDIS attachment)

January 17, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: Cyrus Vance *CV*

SUBJECT: Request for New Authorization to
Negotiate a Renewal of the Azores
Base Agreement; Request for
Additional Grant Military Assistance
for Portugal

I am coming back to you for additional assistance to Portugal in FY 1980 in full realization that budget figures are already set. However, I strongly believe that the great importance of our aid relationship with Portugal warrants review. The unhesitating concurrence by the Portuguese for the use of the Azores base for the F-15 deployment to Saudi Arabia dramatizes the critical role of the base as well as the full cooperation we can expect from our present close relationship with the Portuguese Government (messages from Ambassador Bloomfield and General Haig are attached).

The purpose of this memorandum is twofold: (1) to secure your approval to raise our offer for a 9 year (1974-83) Azores base agreement renewal from \$120 million to \$140 million; (2) to offer an additional \$21.2 million in military assistance for Portugal in FY 1980 outside the base agreement to sustain our present excellent relations with Portugal.

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GDS, 1/16/86

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ESDN: NLC-126-16-13-2-8
BY *155* NARA DATE *6/28/13*

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- 2 -

You have already approved a \$120 million negotiating authority to conclude an Azores base agreement with the Portuguese. There are firm indications that the Portuguese Government is ready to conclude a base agreement. We think that it would accept \$140 million which we, DOD, and NSC find reasonable. This would be disbursed over the next four years. In a separate Tarnoff/McIntyre memorandum dated July 7, 1978 we set forth the rationale for this increase (attached). No additional funds are required in FY 1980 for this purpose. The FY 1980 budget contains \$30 million in military assistance and \$50 million in economic assistance for Portugal. OMB has earmarked the \$30 million as base military quid; \$15 million of the \$50 million can go to base economic quid.

This, however, would leave us with no Military Assistance Program (MAP) for Portugal in FY 1980 beyond the base quid; the Portuguese Government also expects us to continue a program of grant military assistance to develop the NATO-designated brigade - our initiative and the centerpiece of the modernization and depoliticization of the armed forces.

I therefore recommend that you raise the FY 1980 budget mark by \$21.2 million in MAP for Portugal.

The impact of these funds will be crucial for a number of reasons: (1) to help secure renewal of the Azores base agreement -- a vital link in our security system -- for a reasonable sum; (2) to sustain Portugal's still fragile democracy which is heavily dependent on us materially and psychologically; (3) to encourage the continued depoliticization of Portuguese Armed Forces while equipping them to become a credible component of the NATO force

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- 3 -

structure. The dividend from our assistance over the past three years has been substantial -- Portugal's emergence from a repressive dictatorship to a democratic government devoted to the economic betterment and human rights of its people.

If the additional funds are not approved: (1) the Portuguese Government may well withdraw its proposal and up the ante on the base negotiations in order to compensate - a speedy conclusion would become impossible; (2) the reduction in regular MAP (outside of the base agreement) from \$25.9 million in FY 1979 to zero in FY 1980 would send negative signals about our support for a depoliticized, NATO-oriented Portuguese military and for Portuguese democracy in general; (3) the disillusionment of the military could begin a downward trend in our relations which could lead to restrictions on the use of the base; (4) our oft-stated position to our NATO allies that they should contribute more not less to modernize the Portuguese armed forces would be seriously undercut.

We have examined the alternatives and find none to be feasible. An offer of \$21.2 million in a Foreign Military Sales loan rather than grant MAP would increase Portugal's foreign debt by that amount plus 9.4% interest. This directly contradicts the economic policies we and the International Monetary Fund have successfully urged the Portuguese Government to adopt to cope with its severe economic difficulties. Continuing budget stringencies argue against planning to provide for any MAP for Portugal after fiscal years 1980 and 1981.

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- 4 -

Recommendations:

1. That you authorize an additional \$20 million (an increase from \$120-\$140 million) to conclude the Azores base rights renewal agreement for the 9 year period (1974-83).

Approve ✓ Disapprove

2. That you authorize us to offer \$21.2 million in FY 1980 MAP for Portugal in addition to the \$30 million MAP provided in the base agreement, the minimum necessary to maintain our excellent relations with Portugal.

Approve Disapprove

Attachments:

- 1 - Messages from Ambassador Bloomfield and General Haig
- 2 - Tarnoff/McIntyre Memorandum

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EXDIS

FOR THE SECRETARY

FOR NSC - BRZEZINSKI

FOR OMB - MC INTYRE

FROM BLOOMFIELD-

E.O. 12065: RDS-3 1/12/89 (BLOOMFIELD, R.J.) OR-M

TAGS: OR-M PFOR PO

SUBJECT: THE F-15 OPERATION AND FY 80 BUDGET DECISIONS

1. THE PROMPT RESPONSE OF THE PORTUGUESE GOVERNMENT TO OUR ELEVENTH-HOUR REQUEST FOR THE USE OF LAJES FOR THE F-15 OPERATION WAS COURAGEOUS AND EXTREMELY FORTECOMING. COURAGEOUS, BECAUSE THE FOREIGN MINISTER AND THE PRIME MINISTER WERE WELL AWARE THAT THEIR DECISION WILL PROVIDE AMMUNITION FOR PORTUGAL'S VOCAL COMMUNIST PARTY AND OTHERS ON THE EXTREME LEFT AND RIGHT TO USE AGAINST THEM AND MIGHT INCUR FOREIGN POLICY COSTS FOR PORTUGAL AS WELL. FORTECOMING, BECAUSE WE WERE ASKING THEM TO TAKE A DECISION FRAUGHT WITH POTENTIAL POLITICAL REPERCUSSIONS ON EXTREMELY SHORT NOTICE AND THE GOP COULD HAVE INSISTED AS A MATTER OF PRINCIPLE ON MORE TIME TO DELIBERATE AND CONSULT.

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PAGE 02 LISBON 00304 121232Z

2. THIS INCIDENT DEMONSTRATES THE CRITICAL ROLE OF PORTUGAL AND OF THE TONE OF OUR RELATIONS WITH THIS COUNTRY TO OUR BROADER STRATEGIC CONCERNS. IT UNDERLINES THE IMPORTANCE OF THE PENDING DECISIONS REGARDING THE ADDITIONAL \$21.2 MILLION IN MAP FOR FY 1980 AND THE INCREASE IN THE QUID FOR THE LAJES AGREEMENT. IF EITHER OF THESE DECISIONS GOES AGAINST PORTUGAL, WE SHOULD NEITHER BE SURPRISED NOR RESENTFUL IF THE NEXT TIME WE WANT GOP CONCURRENCE IN THE USE OF LAJES FOR A POLITICALLY SENSITIVE OPERATION THE PORTUGUESE RESPONSE IS NOT AS FORTECOMING.

BLOOMFIELD

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Per, Rac Project

ESDN: N 126-16-13-2-8

BY 165 NAW 6/28/13

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The following is a message from General Haig received January 3, 1979:

- "1. I understand that a final decision on the MAP for Portugal is pending. In this regard I am concerned that any attempt to eliminate either MAP or the base rights quid by some combination of the two or an "either-or" approach is unrealistic and would be counterproductive in the extreme for U.S. and alliance interests. This message summarizes and reiterates arguments previously made in references as well as in various other messages since 1975 which advocate continuing Portuguese MAP, distinct from any Lajes quid, at the level of at least \$30 million per year.
- "2. Amb Bennett presented the case as eloquently as it has ever been made in his message of 5 Dec (ref D) in which he stated we can expect little support from allies if we do not continue Portuguese MAP. This would be most unfortunate since the Portuguese are on record in NATO as praising the reliability of the U.S. MAP - a quality as important to them politically and militarily as the actual materiel provided. As Amb Bennett noted, a fundamental alteration of MAP levels would send the wrong signals to allies and would come precisely at the time when European nations in direct response to the U.S. lead are at last beginning to make the legal and political moves necessary to assume a larger share of the assistance effort.
- "3. Implicit in Amb Bennett's message and explicit in my earlier ones as in those of Amb Bloomfield (e.g., ref E), is the practical impossibility of convincing the Portuguese that the U.S. was committing anything but a major breach of faith by attempting to combine MAP and the basing rights quid. These two entirely separate programs have always had separate objectives with the potential for even greater positive effect in the future at very modest cost. Admirals Kidd and Train (Refs F and G) have both noted the impact of losing use of Lajes which is so key to our ability to reinforce allied command Europe.

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"4. We see no way that the Portuguese military can be turned away from politics unless they have a non-political goal on which to focus. Since 1975 that goal has been orientation towards NATO's common defense. Realistically, this reorientation cannot be sustained without continued modernization of the obsolete Portuguese armed forces. Portugal has necessarily counted on U.S. MAP, other U.S. military assistance related to the Lajes quid, and NATO-wide military assistance through the Ad Hoc Group. Without all three, Portuguese force modernization will quite likely fail. In such an event, the Portuguese military can be expected to turn again to politics with only the most adverse results for the present moderate government in Lisbon. Alternatives could only be offered by the extreme right or extreme left. In this regard we should all bear in mind the fact that Portugal is not beyond the danger of another takeover by extremists. The U.S. has championed President Eanes and his moderates as a new regime which stands steadfast against extremism. We should not lose the hard won ground on which we have thusfar invested relatively little in the way of financial and other resources.

"5. In the case of vital U.S. national as well as alliance interests a MAP of at least \$30 million annually is needed separate from the \$60 million military portion of the Lajes quid which Portugal confidently expects of Washington. It is clear that failure to meet both "commitments" (as perceived by the Portuguese and our other allies) will quite likely destabilize the internal situation of Portugal and have consequences which will cost much more than \$38 million annually to undo -- if indeed those consequences can be undone. Haig"

↑
Root of
The
problem

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DEPARTMENT OF STATE

Washington, D.C. 20520

CONFIDENTIAL

July 7, 1978

MEMORANDUM FOR MR. JAMES T. MCINTYRE
OFFICE OF MANAGEMENT AND BUDGET

Subject: Renewal of US Base Rights in the Azores

On June 10, 1977 your office advised that the President had approved a Department of State recommendation to offer the Portuguese Government \$120 million in grant economic and military assistance in return for a 10-year (retroactive to 1974) renewal of US rights to use the Lajes Air Base in the Azores. We presented that offer to the Portuguese Government on June 17, 1977 (see Tab 1).

Due to the domestic political crisis, which culminated late last year in a change of government, and because of continuing differences between the central government and the Azoreans, Lisbon was unable to respond to our offer until May 31 of this year. At that time the Portuguese made a counter-proposal for \$160 million in US grant assistance (\$100 million in economic and \$60 million in military assistance) in return for an eight-year renewal agreement. In addition, the Portuguese tabled several Azorean requests concerning labor relations at the Lajes base. We told the Portuguese that their proposal was not acceptable to us, that \$160 million was too much, and that eight years was too short a time considering that a renewal would be retroactive to February 1974.

Subsequently the GOP stated that \$140 million in US grant assistance (\$80 million in economic and \$60 million in military) would be acceptable to the Portuguese Government for a seven-year agreement. They also agreed that discussion on labor relations

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- 2 -

at the base should be dealt with at the technical level and not be spelled out in the exchange of diplomatic notes which will comprise the renewal agreement.

Ambassador Bloomfield has recommended that we now present to the Portuguese a final offer of \$140 million for a nine-year agreement. We believe that an offer of that size is reasonable considering the virtual irreplaceability of the Lajes base and our interest in assisting the Portuguese economically and militarily. Ambassador Bloomfield believes that the Portuguese will accept such an offer.

The Department, therefore, requests the President's approval for a suggestion to the Portuguese, subject to annual authorization and appropriation by the Congress, that the US would be willing to offer the following on the basis of a nine-year extension of the 1951 Lajes agreement:

(Millions of dollars in each fiscal year)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>Totals</u>
Grant economic aid for the Azores	15	20	20	25	80
Grant MAP	30	30			60
Yearly rate	45	50	20	25	140

Whether the economic portion of the agreement should be funded by AID or by Defense may be resolved at an appropriate time in the budget process. AID believes this item to be inappropriate for its budget but would be willing to administer such a program if requested to do so by State and Defense. State and Defense prefer the existing precedents, ie. reliance on SSA, MAP and IMET (military training accounts).

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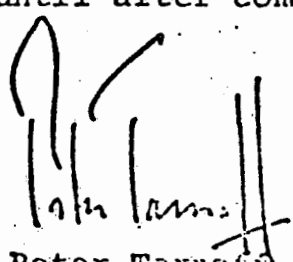
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The assistance which we will provide, as a result of a base renewal agreement is only a part of our larger effort to help the Portuguese maintain and strengthen their fledgling democracy. The next few years will be critical for Portuguese democracy as the government attempts to contain rising popular discontent at a continued decline in living standards and satisfy a disillusioned military at the same time that it carries out tough IMF-mandated austerity measures. Therefore, State is considering recommending that economic assistance (including PL-480) and grant MAP be furnished to Portugal in FY 1980 and FY 1981 outside the context of a Lajes agreement. For OMB's planning purposes the following chart contains the Embassy's estimates of assistance which would be provided outside the context of a base agreement:

(Millions of dollars in each fiscal year)

	<u>1980</u>	<u>1981</u>
Economic assistance	100	77
PL-480 (Title I loans)	50	50
Grant MAP	20	20

However, final determination of proposed assistance levels will not be made until after completion of the annual ZBB exercise. 


Peter Tarnoff
Executive Secretary

Attachments:

- 1) Benson-Lance letter of April 21, 1977
- 2) Cutler-Benson letter of June 10, 1977

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